The Economist

20020427

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIED ADS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Print Edition April 27th 2002

France's shame
The result of France's first-round presidential contest was shocking—but it might do some good … More on this week's lead article

Previous print editions

Apr 20th 2002
Apr 13th 2002
Apr 6th 2002
Mar 30th 2002
Mar 23rd 2002

More print editions and covers »

Subscribe

Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week

Politics this week
Business this week

Leaders

France's shame

America's current-account deficit
The O'Neill doctrine

Pakistan
Musharraf's referendum

The Palestinians
Vacuum at the centre

Financial analysts
Independence days

Letters

On bribery, Oxford University, slavery, South Africa, the Gulf states, rugby

Special Report

The French elections
After the cataclysm

Jean-Marie Le Pen
Superfascist

United States

Congressional redistricting
How to rig an election

The United States and Venezuela
Tales from a failed coup

Non-proliferation policy
Stopping the cheats

The Catholic church in crisis
When in Rome

Lexington
Out from Rudy's shadow

The Americas

Argentina's collapse
Return to the dark ages

Ecuador's economy
Banana skins

Colombia's conflicts
The FARC turns the screws

Politics in Peru
Digging for truth

Asia

America and China
China's worrying friendships

Philippines
A need for firm action

Japan
The politics of nationalism

A new magazine
For the modern woman of Kabul

Australia
The unlucky country

Malaysia
Silencing the critics

Business

Asian companies and the China challenge
Soaring dragon, busy tigers

Oil
A cartel in search of comfort

The Microsoft trial
Bill Gates, software saviour

Auction houses
More trials and tribulations

Mobile telecoms
Snap happy

Canal Plus
Rebels with a cause

McDonald's in France
Delicious irony

Face value
Making up for lost time

Special Report

Boeing v Airbus
Towards the wild blue yonder

Finance & Economics

Share options and executive pay
Coming clean on stock options

Mizuho Bank
Undispensable

Japan's economy
The bottom line

Financial services in Europe
How to protect investors

The European Central Bank
Defended

Digital cash
The telephone is the tool

Economics focus
Big MacCurrencies

Science & Technology

South Africa and AIDS
Reason prevails

Cosmology
The prints of darkness

Height and earnings
Walk tall

Books & Arts

New fiction
A world in one room

America and foreign wars
With or without

Labour chancellors
Two of a kind

Human rights
Impartially engaged

Advertisement

Middle East & Africa

The Palestinians
After the assault

Arabs and Palestine
Angry words, hesitant deeds

Jews in the Arab world
Memories, mostly

Iranian energy
Mixing oil and politics

Ghana as economic model
Good, but not at election time

Europe

Europe's far right
Toxic but containable

Hungary's election
Orban loses, but only just

German politics
Schröder's men reel, Stoiber limps

Italy's government and television
The prime minister objects

Poland's government and the media
No love lost

Charlemagne
Patriarch Alexy, a powerful Russian

Britain

Elected mayors
The enemy of my enemy

Transport
Tolled you so

Northern Ireland
Mr Adams regrets

Historical re-enactment
Déjà new

Budget, continued
The immigrants' contribution

Forests
Soft money and hard wood

Muzak
A sour note

Bagehot
Could it happen here?

Articles flagged with this icon are printed only in the British edition of *The Economist*

Central European history
What's in a name

A gardening correspondence
Herbaceously yours

Archaeological decipherment
A puzzling case

Bayreuth festival
Ha, ha, ha

Obituary

Thor Heyerdahl

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

GDP forecasts

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Stockmarkets

Emerging-Market Indicators

Overview

The Economist poll of forecasters

Economy

Financial markets

Advertisement

Classified ads

Jobs

Senior Operations Manager, Financial Markets
Terms of Reference IFC Private Enterprise Partnership Background ....

Business / Consumer

WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders

WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Business! Profit....

Property

WORK FROM HOME
SALES REP. NEEDED A SALES REP IS NEEDED TO BE WORKING FROM HOME FOR EGOBOLIC TIMBERS INT'L. YOU....

Jobs

Tenure Track Position Available
Assistant Professor of Geography Tenure-track Assistant Professor position, starting....

Tenders

Invitation for Prequalification
Hashemite Kingdom of Jordan Ministry of Finance for Supply and Implementation ....

Sponsors' feature

About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Apr 25th 2002
From The Economist print edition

French election shock

AP

France suffered a political earthquake in the first round of the presidential election: standing on a law-and-order and anti-immigrant platform, **Jean-Marie Le Pen**, leader of the populist National Front, took almost 17% of the vote and came second to the centre-right's Jacques Chirac. That drove the Socialist Lionel Jospin out of the race. While its leaders pledged support to Mr Chirac, the left raged in impotent street demos, French-resident Arabs shivered and most of Europe expressed horror. One near-certainty: re-election for Mr Chirac.

See article: Analysing the French elections

Germany's Social Democrats, expecting bad defeat in a state election in Saxony-Anhalt, suffered worse: total rout. Triumphant Christian Democrats saw a big boost to their hopes of being elected to national power in September. Meanwhile, members of the giant IG Metall union voted on whether to strike over pay.

See article: Germany's voters face both ways

Italy's prime minister, **Silvio Berlusconi**, set off yet another quarrel over whether his power is excessive by denouncing two television journalists (and one comedian) for their “criminal” use of public television during last year's election campaign.

See article: Italy's government and television

In **Russia**, an argument rattled on between the Orthodox and Roman Catholic churches after two prominent Catholics, both long-time residents and one of them a bishop, had their visas cancelled.

See article: Russia's Orthodox patriarch

Hungary's ex-communist Socialists, led by Peter Medgyessy, looked set to form a coalition government, though the outgoing prime minister, Viktor Orban, and his conservative Fidesz party won most seats in a general election.

See article: Hungary's change of government

Ireland's parliament was dissolved, with a general election called for May 17th.

After the facts

Israel delayed the departure to Jenin of a UN **fact-finding team**, led by Martti Ahtisaari, a former Finnish president, insisting that it contain more military and counter-terrorist experts.

See article: The Palestinians after Israel's assault

Israel and the Palestinians held talks to try to end the **stand-off at Bethlehem** where about 300 people have been under siege in the Church of the Nativity for the past three weeks. Palestinian deaths included an assassinated Fatah leader, three 14-year-old suicide attackers killed near a Gaza settlement and four

suspected collaborators publicly executed by Fatah militiamen.

See article: Vacuum at the Palestinians' centre

Protests at Israel's invasion of the West Bank continued in the **Arab world**. Egypt's Hosni Mubarak said that Israel's “state terrorism” would fuel an appetite for revenge. Jordan arrested five members of an outlawed Islamist party that had been pressing for Jordanian troops to be sent to help the Palestinians. Saudi Arabia's Crown Prince Abdullah was due to meet President George Bush in Texas on Thursday.

See article: The Arab response to the war on the West Bank

A week after **South Africa's** cabinet said it favoured, after all, giving anti-AIDS drugs to rape victims and infected pregnant women, President Thabo Mbeki gave an uncharacteristically blunt speech about sex. He said that people who are “having hugely promiscuous sex all over the place” must expect to be affected by the disease.

See article: South Africa and AIDS

Mark Shuttleworth, an entrepreneur from Cape Town who sold his software firm at the right time, became the **first African in space** after paying $20m to the Russian space programme for the trip. He is the second “space tourist”, after a similar jaunt by Dennis Tito, a Californian financier, last year.

The **World Food Programme** gave warning that millions of people in Malawi, Zambia and Zimbabwe were about to be seriously short of food.

In **Rwanda**, the police announced that a former president, Pasteur Bizimungu, will face trial for “threatening state security”, by continuing to lead a banned opposition party.

No minister

Reuters

Argentina's economy minister, Jorge Remes Lenicov, resigned after the country's Congress prevaricated over approving a plan to turn bank savings into bonds. His resignation calls into question the future of Eduardo Duhalde's four-month-old government, and a still elusive agreement between Argentina and the IMF.

See article: Argentina's gloomy outlook

Colombia's FARC guerrillas abducted a departmental governor and a former defence minister from a peace march. An American congressional committee reported that the IRA had provided terrorist training to the FARC since at least 1998. Gerry Adams, leader of Sinn Fein, the IRA's political wing, declined to appear before the congressional committee.

See article: Colombia's conflicts reach the cities

Catholic guilt

Twelve **American cardinals** went to Rome to discuss with the pope the sexual-abuse scandal that is sweeping the Catholic church in America. They agreed that sexual infractions had no place in the priesthood and pondered whether erring priests should be defrocked after one offence. The pope refused to consider any change to the church's rule on celibacy.

See article: America's cardinals in Rome

Karen Hughes, the White House counsellor and one of the chief guardians of the “leak-proof” Bush administration, **resigned**, saying she and her family were homesick for Texas.

In the largest **pro-Palestinian rally** in America's history, about 75,000 people marched through Washington, DC.

Terror in the Philippines

Fifteen people died in **bomb blasts** in the southern Philippine town of General Santos. Five suspects were arrested. Police said they were investigating the attackers' possible links with Osama bin Laden's al-Qaeda network.

See article: Bomb attack in the Philippines

In a fresh show of power, Maoists ordered a general strike in **Nepal**. More than 3,500 people have died in the six-year rebellion against the constitutional monarchy.

Razali Ismail, a United Nations envoy in **Myanmar**, was said to be “cautiously optimistic” that the ruling military junta would free Aung San Suu Kyi, the opposition leader, from house arrest.

In continuing clashes between Hindus and Muslims in **India's** Gujarat state, 33 people were killed over three days. More than 850 people, mostly Muslims, have died in the country's worst religious violence in a decade.

AP

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Business this week

Apr 25th 2002
From The Economist print edition

Mobile woes

Ericsson confirmed the worst fears of mobile-phone pessimists by announcing that it would lay off up to 20,000 staff by the end of 2003, some 20% of the total. Losses at the Swedish mobile-phone and equipment maker in the first quarter totalled SKr5.4 billion ($517m), after orders from heavily indebted mobile operators suffered. The shares plunged by 24%, and the company announced a rights issue to raise SKr30 billion.

See article: Mobile phones that take pictures

Kamps, Germany's biggest baker, dropped its objections to a takeover and accepted a bid from Barilla, the world's biggest pasta maker, after the Italian company added an extra slice of cash to its offer. Barilla is paying just over *euro*1 billion ($892m) to extend its grip on European mealtimes.

CGNU, a British insurer, met resistance at a shareholder meeting to a dividend cut and its plan to change its name to Aviva. Too similar to Arriva, a British bus company, complained investors: symbolic of “life, growth and vitality”, retorted the company, of the cod-Latin rebranding.

The European Commission drew up a list of American goods that it plans to hit with **trade sanctions** in retaliation for the steel tariffs that the Americans announced last month. In order to target states that are politically sensitive to President George Bush, the list includes steel products, as well as such diverse items as quinces, crocheted vests, protective goggles and pinball machines. The Americans urged the EU to postpone its mid-June deadline for imposing the sanctions.

Going, going, gone

Alfred Taubman was sentenced to a year and a day in prison and fined $7.5m for his part in an illegal price-fixing scheme between **Sotheby's**, an auction house of which he was chairman, and Christie's, a “rival” auctioneer.

See article: Auction houses in the dock

AOLTime Warner, the world's biggest media company, announced the world's biggest write-off of goodwill, taking losses in the first quarter to a staggering $54.2 billion.

Ford responded to the departure of Wolfgang Reitzle, head of the group's luxury-car division, and the recent ascendancy of General Motors, with a management reshuffle. Mark Fields, head of the less prestigious Ford-controlled Mazda Motor, will take over the European luxury brands—Volvo, Jaguar, Aston Martin and Land Rover. Lincoln-Mercury will revert to control by the North American unit.

ExxonMobil's profits fell by 58% in the first quarter compared with a year ago—which had been a record quarter for the company—to $2.2 billion. Good weather combined with recession and the September 11th attacks to cut demand.

Bill Gates appeared in court for the first time in the **Microsoft** antitrust trial. He argued strongly against the draconian remedies to the software giant's monopolistic behaviour that are being demanded by nine hardline states. Mr Gates, hoping to convince the court that less stringent remedies hammered out between Microsoft and the Justice Department would suffice, argued that a more drastic solution would hobble innovation at Microsoft, computers everywhere—and indeed the world economy.

See article: Bill Gates takes the stand

Enron's new bosses said that the bankrupt energy trader's assets were inflated by some $14 billion when the company filed for bankruptcy late last year. As much as another $10 billion could be wiped away by liabilities from energy-trading derivatives contracts.

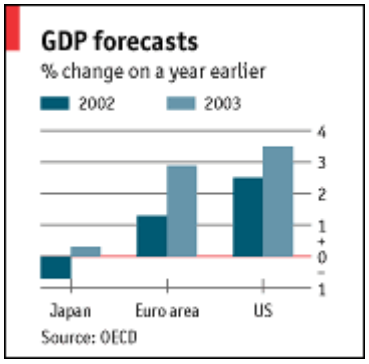
Paul Volcker, the former Fed chairman who has been trying to save **Andersen**, the accounting firm that audited Enron, seems ready to quit. Andersen's partners appear unwilling to make the changes necessary for its survival. Meanwhile, the firm made a last attempt to settle with America's Justice Department.

New York state's attorney-general, Eliot Spitzer, continued his investigation of **Wall Street**. He announced a multi-state task-force to probe investment banks and said that federal regulators are on the case. Merrill Lynch, accused of having misleading investment research, hired Rudolph Giuliani, a former mayor of New York (and federal prosecutor), as a legal adviser. Lost in the furore: neither Merrill nor any other firm has been accused of a crime.

Celera Genomics appointed Kathy Ordoñez as president, to replace Craig Venter, who left in January. It is also to transfer its genome-database business, including its version of the human genome, to a sister company, Applied Biosystems. Celera will concentrate on drug development.

Bouncing back

The OECD is optimistic about the prospects for the **world economy**, according to its latest *Economic Outlook*. Even Japan's recession-blighted economy is predicted to grow a little in 2003.



Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

France's shame

Apr 25th 2002
From The Economist print edition

The result of France's first-round presidential contest was shocking—but it might do some good

Get article background

EPA

IT IS disgusting that voters in one of the world's richest and most civilised countries should now have to choose as their president either a washed-up if amiable opportunist regularly lampooned on television as “Superliar” or, by way of an alternative, a thug whose message is one of hate. It is spine-chilling, too, for Europeans across the continent who fear that the success of the odious Jean-Marie Le Pen may inspire voters elsewhere to follow suit. All the same, ghastly as the first-round result of France's presidential contest has been, the eventual outcome, once the country's parliamentary election in June is over, could yet be less malign than it seems.

There is no cause to panic. With lucky Jacques Chirac almost certainly back in the Elysée Palace for another five years, Mr Le Pen will soon have no more say in running France than he did before. At the same time, the jolt to the system he reviles is salutary. Some of the questions he raises need answering.

To be sure, Mr Le Pen scored too well. His National Front won more votes than any other party in no fewer than 35 out of France's 100 departments (see article). But his success owed more to the mainstream candidates' dismal failure and, above all, to the crazy fragmentation of the left—which cast more than a quarter of the entire vote for candidates plainly or arguably to the left of the Socialists' Lionel Jospin—than to a surge of enthusiasm for France's neo-fascist right. The front's popularity has ebbed and flowed for more than a decade. Mr Le Pen won 14% in the presidential race of 1988 and 15% in 1995, with dips and bounces over the years. This time his tally of 4.8m votes was only a shade higher than in 1995. His percentage was bigger, at just under 17%, because the turnout dropped sharply while his own supporters stood firm. Had it not been for the shock of Mr Le Pen depriving voters of any left-wing choice in the run-off on May 5th, last weekend's most striking outcome would have been the disarray of the left and the near-disappearance of the once-powerful Communist Party.

The centre failed

Mr Jospin destroyed himself. He could not decide whether to run as a social democrat or socialist. In the event, he wobbled grimly back and forth, losing votes on both sides of the fence. Yet his record as prime minister had, for the most part, been honourable and competent. Though his heart is on the old left (he was a secret Trotskyite into his forties), his head took him stealthily towards the right. Apart from the questionable imposition of a 35-hour week and the odd futile gesture to his Communist coalition allies, he had managed France's economy fairly well, despite shrinking from the bolder sorts of reforms (of pensions, the labour market and health care, for instance) that the country badly needs. Had he become president, and had he chosen a good prime minister if the left had gone on to win the general election in June, France could have done worse. Mr Chirac, though infinitely preferable to Mr Le Pen, does not deserve to stay on. He has charm and a sharp eye for the main chance but over many years has shown a patent lack of a moral or ideological compass. Accusations of corruption hang over him. Neither he nor Mr Jospin really seem to know where France should go.

Some say this sorry lack of real choice lies with an electoral system designed in 1958 for a malleable parliament and a magisterial president in the person of Charles de Gaulle. Now, confounding both the intention of its designers, and perhaps of French voters, it too often produces a paralysing, sullen

“cohabitation” between a president and prime minister from opposing sides. A recent reform designed to align the presidential and parliamentary terms, precisely in order to avoid this result, seems unlikely to succeed. As things stand, the left may revive in the coming general election after Mr Chirac's fluky return to office—and so bring in yet another unwanted bout of hamstringing cohabitation.

Another possibility is that Mr Chirac, who does not lack persuasive talent when he cares to deploy it, may himself rally the nation and coax the mainstream right to victory in June too. If so, and this is where the shock of Mr Le Pen could bring benefits, a re-elected president with a government in tune with him has a much better chance of forcing through the reforms that France needs. Other benefits could follow. For one thing, the Socialists may have to decide, once and for all, to define themselves as modernisers rather than pander to ghosts on the barricades. That would be good for France too.

Welcome to the new republic

In any event, the mainstream right, as well as the left, needs to address the sort of questions which—so the Le Pen phenomenon plainly shows—bother a lot of French people. The first, couched in lamentation about a perceived loss of national identity before the twin fears of American-led globalisation and the homogenising forces of the European Union, demands a new definition of France's place in the world. While sensing the country's shrinking influence, especially as its old rival Germany flexes its muscles and the EU becomes too big for France to mould in its own image, Messrs Chirac and Jospin both signally failed to explain to their proud and prickly compatriots how and why France is changing.

That leads to a second huge question, which Mr Le Pen rightly raises but in an entirely wrong spirit: what to do about rising crime and the related questions of race and immigration, a topic that concerns the entire continent (see article). Both mainstream parties mouthed soothing banalities about the need for “social cohesion” and so on. In practice, France, with a large immigrant population, has performed even worse than other EU countries in drawing newcomers harmoniously into its fabric. Dark-skinned Frenchmen are woefully underrepresented in politics. Should politicians extol the melting pot, as they traditionally have, or an ethnic mosaic, as many of the country's 4m-5m Muslims prefer? Multiracialism in France, bar its champion football team, is failing. Mr Le Pen's ugly prejudices and harsh proposals, such as repatriation, are hateful. But the questions he raises deserve responsible debate, all over Europe.

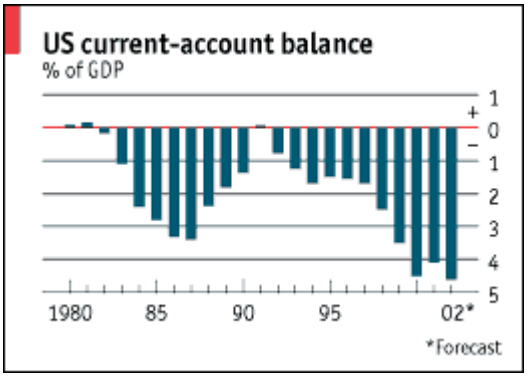
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

America's current-account deficit

The O'Neill doctrine

Apr 25th 2002
From The Economist print edition

America's huge external deficit is an accident waiting to happen



THE International Monetary Fund says that America's current-account deficit poses one of the biggest risks to the world economy. Paul O'Neill, America's Treasury secretary, reckons that the Fund's economists do not know what they are talking about. He says the current-account deficit is a "meaningless concept": policymakers should pay no attention to it. Mr O'Neill's views fly in the face of experience. A deficit that will require America to borrow from abroad almost $2 billion a day by 2003 can hardly be ignored. The consequences for the dollar if foreigners' appetite for American assets ever wanes would give a Treasury secretary who knew what he was talking about sleepless nights.

Mr O'Neill argues that the deficit merely reflects the fact that foreigners, attracted by superior returns, want to invest in America. The current-account deficit is no more than the accounting counterpart of that net inflow of capital. The deficit is created by the rational saving and investment decisions of private firms and individuals: there is no reason why the government should know any better than they do. This argument will sound familiar to British readers. It was used by Nigel Lawson, then Britain's chancellor of the exchequer, in the late 1980s—just before Britain's economy turned south, taking the "Lawson doctrine" on current-account deficits with it.

Mr O'Neill is right to think that big current-account deficits are not necessarily bad, but his argument is flawed in three ways. First, America's current-account deficit is no longer a purely private-sector matter. Tax cuts and increases in defence spending have pushed the budget back into deficit too. Since the current-account balance equals the net saving of the private and public sectors, a budget deficit boosts the external deficit. Second, private-sector decisions about saving and investment may sometimes be based on false hopes about profits and stockmarket returns—hard to believe, given Wall Street's fine record these past few years, but true nonetheless. Correcting these errors can then be a very painful business. And third, history suggests that big current-account deficits always collapse in the end. There is a limit to the willingness of investors to hold ever more dollar assets.

If capital inflows were to dry up, the current-account deficit would have to shrink, either through a slump in domestic demand or a fall in the dollar, or both. A study by the Federal Reserve of large current-account deficits in developed economies found that deficits usually began to reverse when they exceeded 5% of GDP. And this adjustment was accompanied by an average fall in the nominal exchange rate of 40%, along with a sharp slowdown in GDP growth.

America is likely to move into this danger-zone by the end of the year. In previous recessions America's deficit has narrowed as domestic demand and imports weakened. But last year America's deficit remained just over 4% of GDP. This year's surge in imports, as consumers continue to spend, will cause the deficit to swell. Morgan Stanley predicts that it could reach almost 6% of GDP by the end of 2003. That would be the biggest deficit run by any G7 economy in the past 30 years.

In recent years large capital inflows have more than covered America's current-account deficit. As a result, the dollar has become overvalued (see article). If, make that when, foreigners' desire for dollar assets fades, the dollar may zoom too far in the other direction. Will that also be of no concern to policymakers, Mr O'Neill?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Pakistan

Musharraf's referendum

Apr 25th 2002
From The Economist print edition

Bogus democracy can be worse than none at all

EPA

COUNTRIES that consider themselves to be at war, as George Bush says America does, have reason to become less fastidious about their choice of friends. One friend of America to have benefited mightily from this phenomenon is Pakistan's president, Pervez Musharraf. General Musharraf is a military dictator who seized power in a coup in 1999 and was thereafter shunned by much of the world as a pariah. This changed after September 11th. On being asked by Mr Bush whether he was going to be with or against the United States against Osama bin Laden, President Musharraf decided that he had better be with. This was not an easy choice for the president of a country that has many Islamic extremists of its own, and whose own intelligence people enjoyed intimate relations with the Taliban regime in neighbouring Afghanistan.

Mr Bush has reason to be grateful for the general's decision. Without Pakistan's support, America would have found it a good deal harder to topple the Taliban and round up some of the al-Qaeda terrorists who fled across the border to Pakistan. But Pakistanis have reason to be grateful too. September 11th gave Mr Musharraf an opportunity to stamp down on the home-grown extremists who posed a growing threat to the stability of his own country, and might still provoke a war with India over Kashmir. In addition, Pakistan has been richly rewarded for picking the right side. America has poured in aid and ended the sanctions it imposed to punish Pakistan for giving itself nuclear weapons. Foreign governments and international banks have rescheduled much of Pakistan's debt.

In short, Mr Musharraf has lately been useful to the West, and his policies have, on balance, been good for his own country. The trouble is that he is still a dictator. And although he says his eventual aim is to guide Pakistan back towards democracy, he is now proposing—provided the courts approve—to do so by the most questionable of means.

Until recently, Mr Musharraf's plan was to allow parliamentary elections to take place in October. Under the existing constitution, the national parliament and provincial assemblies thus elected would have the right to elect the president. But, of course—such is the awkwardness of democracy—Mr Musharraf could not be sure that these newly elected bodies would then choose to elect him. So, on April 30th, he intends to hold a referendum inviting voters to give him another five years in office. There is to be no other candidate in this referendum. He says he will quit if he “loses”, but not what losing means. October's parliamentary ballot will still go ahead, and so produce an elected prime minister. But the elected politicians will not be allowed to exercise their constitutional right to remove the general from office. He would preside, alongside the armed forces, over a new supreme body to be known as the National Security Council.

Mr Musharraf has been useful to the West, and his policies have, on balance, been good for Pakistan. The trouble is that he is still a dictator

Pakistan's main parties are understandably aghast at this plan. The Bush administration, for its own geopolitical reasons, is understandably reluctant to criticise it. The general's supporters argue that many of the actions the West expects from Mr Musharraf—rooting out the wilder Islamic groups and ending the incitement preached in the religious schools—require a dose of authoritarianism. To imagine otherwise, they say, is to indulge in dangerously wishful thinking. Besides, by removing parliament's power to remove him, Mr Musharraf is also removing his own incentive to stop or interfere with October's

parliamentary elections. Better half a step towards democracy than none at all.

Here we go again

Such arguments should not be set at naught. But they are flawed. Mr Musharraf is keen to modernise. He has much support at home as well as abroad. But can a general who deems his own leadership so indispensable that he rewrites his country's constitution to perpetuate it be relied on afterwards to observe democracy's rules? That really is a case of wishful thinking. Pakistan, moreover, has been this way before. Next week's referendum will mark the second time that an unelected general has gone through such a procedure. The previous attempt, by Zia ul Haq in 1984—he was also American-backed—added neither to his own legitimacy nor to the stability of Pakistan. It would be better, if only for clarity's sake, for Mr Musharraf to remain the dictator he is, and step down when his job is done, than indulge in this bogus referendum. Such exercises serve mainly to give democracy itself a bad name.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Palestinians

Vacuum at the centre

Apr 25th 2002
From The Economist print edition

Israel's assault has left the Palestinian Authority powerless

Get article background

EPA

AS THE Israeli army pulls back from most of the Palestinian towns it invaded over the past month, and as outside observers begin to report on the desolation that has been left behind, the Israeli government can probably claim success for at least one of its war aims. Time will tell how long the present reduction in suicide bombings will last. What it has been able to do is to destroy many of the central institutions, "the terrorist infrastructure", as Israel's prime minister calls them, of the fledgling Palestinian state.

"After an earthquake" is a common reaction to the devastation after the battle at Jenin's refugee camp. And like earthquake victims, the Palestinians in Jenin, Nablus and elsewhere in the West Bank need massive humanitarian help. The UN Relief and Works Agency (UNRWA), which has looked after the basic needs of the Palestinian refugees since their flight in 1948, calculates that it will have to build new houses for 800 families in Jenin, and perhaps almost as many in Nablus. It will also have to restore water and sewage systems destroyed by the army, provide temporary shelter and food, vaccinate against epidemics, and help people repair the buildings that were not pulverised. Help in kind, tents and so forth, is coming in, but not money as yet. Before the onslaught, the agency had received less than half of the $117m it had to have this year to do its normal job. Now, it will need at least as much again.

The humanitarian help is crucial, and should be supplied speedily. But it is only part of the solution. The Palestinians are not victims of a natural disaster, but of a man-made one, and the solution has to be at least as much political as humanitarian. Their own terrorists were the immediate cause of the disaster, bringing savage punishment down on their people. But beyond this is Ariel Sharon's determination to wipe out the harm, as he sees it, done by the Oslo peace process. His vision goes backward to pre-Oslo days when there was no central Palestinian authority but overall Israeli control, some municipal independence and UNRWA picking up the pieces.

Humanitarian help is crucial, and should be supplied speedily. But it is only part of the solution

The wiping out of the Palestinian Authority (PA) over the past month has been methodical, not the sort of trashing that could be an accident of war. Nor was it just aimed at Yasser Arafat's security services, which Israel equates with the militia or terrorists. The removal of hard-drive data storage from the computers in Palestinian institutions, the destruction of records everywhere, including the ministries of education and of civil affairs (which issues the essential ID permits), and the loss of everything at the Bureau of Statistics (one of the few well-run Palestinian bodies) point to a systematic policy of reducing the PA, as well as its leader, to impotence.

A political solution has to be pursued if there is to be any hope of peace, and nobody can speak for the Palestinians except for Mr Arafat and his men. Few would want the PA to be refashioned exactly as it was, its incompetence, corruption and weakness intact. But, until the Palestinians can hold another election (which should indeed be as soon as possible), the authority, with a released Mr Arafat at its head, is the only central Palestinian voice on offer, and as such is indispensable.

The PA has to be helped to get itself together again, and must be protected in the process: with Israel's tanks only yards from ministry doors, nobody is going to spend money on equipment that could be

destroyed again within minutes. Israel's partial withdrawal makes no difference to the compelling need for outside intervention in a conflict where the players can no longer talk to one another, and hope has dissolved in the lust for vengeance. Both sides remain in danger, and need to be shielded from each other. But Jibril Rajoub, Mr Arafat's security chief in the West Bank, has acknowledged that “after this sea of blood” it is no longer possible for the Palestinians to talk of security co-ordination. Israel, he says, “will never have security in the occupied territories.”

Israel's best hope for security resides, as ever, in ending that occupation in a negotiated way that more or less satisfies the majority on both sides. But how to get there from here? Kofi Annan, the UN's secretary-general, has called for “third-party mechanisms on the ground” to protect both Israel's security concerns and the Palestinians' political aspirations. The “quartet” of America, Russia, the European Union and the UN are, he says, deciding what form such mechanisms should take. Wish them luck, and courage. To call this particular intervention difficult, even dangerous, is a heroic understatement. It is essential nonetheless.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial analysts

Independence days

Apr 25th 2002
From The Economist print edition

Why investors should always be suspicious of advisers

CAVEAT emptor: let the buyer beware. It is perhaps the oldest principle of commerce. The more a used-car salesman praises the quality of a particular item of inventory, the more thoroughly you ought to check its performance before buying. And this should apply just as strongly to an investment banker who tries to sell you a share.

New York state's attorney-general, Eliot Spitzer, is basking in publicity for his probe into conflicts of interest between research analysts and investment bankers. His first target is Merrill Lynch, but he is investigating other Wall Street banks as well. And he is threatening criminal prosecutions. Other state attorneys-general may soon join in; the Securities and Exchange Commission, Congress and the Department of Justice are also all watching closely.

As part of Mr Spitzer's case against Merrill, he has released some entertaining e-mails in which the bank's Internet analysts dismiss companies in messages to one another using such colourful terms as “crap” or “a piece of shit”, even as they touted the companies' merits to clients. Mr Spitzer wants full disclosure when banks earn corporate-finance and underwriting fees from companies they analyse; a large compensation fund for investors who were misled; and structural remedies that might even go so far as splitting banks' research and corporate-finance arms.

For all his grandstanding and televised press conferences, Mr Spitzer seems to have some good points. That research analysts have been prone to issue at least nine buy recommendations for every sell recommendation has long been well-known, even among the most naive of retail investors. So has their habit of giving more honest advice over the telephone to big clients, leaving retail investors unaware that “long-term buy” usually means “sell”. But the conflicts of interest inherent to investment banks became disgracefully sharper during the long 1990s bull market.

Supposedly independent analysts working behind Chinese walls were paid millions of dollars, not for the quality of their advice to investors but for helping to secure corporate-finance deals from the companies they were analysing. Genuinely independent analysts who demurred, or who simply wished to issue a sell recommendation, were slapped down or even fired at the behest of banks' clients. Sometimes analysts actually reported to corporate-finance departments; often their pay was fixed according to how much corporate-finance work they claimed to be generating. Unsurprisingly the analysts' advice became curiously and uniformly positive.

Yet regulators should not get carried away by these discoveries into imposing a whole raft of onerous new rules. Prominent health warnings of actual or potential conflicts of interest are a good idea, and the SEC should make sure they are issued. But more detailed regulations, compensation payments to investors or structural remedies such as a ban on issuing research to retail clients might be counterproductive.

The big risk is that any such steps would serve only to revive the illusion among investors that it is ever sensible to take an analyst's advice at its word. Even more perniciously, they could encourage the disturbingly popular notion that somebody, somewhere—bankers, fund managers, companies or even the government—should now pay for the losses that gullible and greedy investors ran up after the bursting of the stockmarket bubble.

Let the markets work

A far more sensible course is to allow the market itself to find the solution—as it is already. The many analysts who maintained buy recommendations all last year on such companies as Enron or Global Crossing have lost any remaining shreds of credibility. Investors who lost money on dotcom shares are today more sceptical of analysts who puff companies with unintelligible business models that never make profits. Fund managers who find research from investment banks unreliable or tainted are relying more on their own work.

Above all, investors should remember those old principles of commerce. Besides caveat emptor stands another: he who pays the piper calls the tune. Whatever the rules or the internal walls, the recommendations of any analyst who is paid a small fortune by his bank should always be regarded with suspicion. No amount of structural changes, lawsuits or compensation funds can beat this simple advice.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Apr 25th 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Banishing bribery

SIR – I applaud your recent article on bribery in international business transactions; it is an important commercial issue affecting industrial and transitional countries alike ("The worm that never dies" March 2nd). As you say, the United States has criminalised the bribery of foreign public officials since 1977, whereas our trading partners have now enacted bribery laws but none has brought an enforcement action. You list several cases of self-reporting of violations of the Foreign Corrupt Practices Act (FCPA) by American companies and the fact that some foreign companies have decided to forgo listing on an American stock exchange in order to avoid possible FCPA exposure. Fines have been imposed for violations of the act in amounts in excess of $20m. The deterrent effect of the FCPA has encouraged American companies to implement sophisticated internal-compliance programmes to detect and deter foreign bribery.

It is now time for other countries, such as Britain, France, Germany and Japan, to enforce legislation implementing the Organisation for Economic Co-operation and Development anti-bribery convention, which has been in force since 1999. Similarly, companies from other countries must be encouraged to adopt and enforce adequate corporate-compliance and training programmes.

Donald Evans
Secretary of commerce
Washington, DC

Oxford's ills

SIR – Your article on Oxford University's collegiate system contained the sort of sweeping generalisation that would attract justifiable censure in any Oxford tutorial ("Drooping spires", March 30th). You boldly assert that "many students would trade their experience of tutorials with bored veterans for the attention of an energetic novice." Really? Then why do businessmen clamour to hear the wisdom of renowned academics, who can command large fees on the conference circuit? The presentations of graduate students generate no such enthusiasm, and no such cash. Learning from world-renowned experts is a positive feature of learning at Oxford.

Paul Donovan
London

SIR – You miss one of Oxford's main problems: the poor quality of management. Oxford colleges are run by retired civil servants, ex-UN bureaucrats, former barristers and, of course, magnificent theoretical thinkers. On occasion, an able manager emerges from this eminent lot. More often, their performance is more in line with what one would expect from looking at their CVs. The emphasis on status over skills is no accident. The process of selection reflects a deep-rooted prejudice against management in general and business management in particular. Note that few issues have provoked as much protest from Oxford dons over the years than the decision to establish a business school.

Risto Penttila
Helsinki

Paying for slavery

SIR – Is there any chance that those who are suing on behalf of descendants of African slaves in America are considering expanding the suit to take in all descendants of slaves ("Time and punishment", April 13th)? Given the widespread practice of slavery throughout history, I am sure that I am descended from slaves somewhere back in my family tree.

I am keen to sue the Italian government, and the Greek Orthodox and Roman Catholic churches, as the surviving representatives of the Roman empire; the Egyptian government as a surviving representative of the pharaohs; various Arab states, especially those with goodly amounts of oil wealth; Germany and France as surviving representatives of the Carolingian empire; and, of course, the Commonwealth as the surviving representatives of the British empire, which was intimately involved with the whole sordid trade until it declared slavery illegal.

I invite anyone who may be descended from a slave-owner, should they feel pangs of guilt, to send me large sums of cash until said guilt is completely assuaged.

Dean Webb
Dallas

Bully beef

SIR – You make me out as someone whose ministerial job is to bully scientists over HIV and AIDS, and presumably other matters ("Leave them be", April 6th). This, I reject and deny with vehemence. I hold a very strong view that no minister in any part of the world should bully anyone, and to me it is totally unacceptable to behave in the manner suggested.

We live in a democracy in South Africa, unlike the situation scientists encounter in many other countries—and unlike the country under apartheid. The government naturally has an interest in the investigations of scientists, for it is the government that has to implement sound policies and recommend expenditure to Parliament. That there should be a vigorous public debate over such issues is also to be expected, and indeed welcomed. If Dr William Makgoba, head of the Medical Research Council, feels he is being "bullied", he should say so, explicitly, in his own country, and not use respected journals with international influence on investment and trade to make the point. He is not being bullied and he will not be bullied. You quote me as saying, "There is no interference from the government into the work of scientists." I stand by this statement. It is the reality.

Essop Pahad
Minister in the presidency
Pretoria

Gulf of understanding

SIR – Your survey of the Gulf states ("No taxation, no representation", March 23rd) incorrectly states that Sheikh Sultan bin Zayed al-Nahayan is the crown prince of Abu Dhabi. In fact, the heir to Sheikh Zayed is Sheikh Khalifa bin Zayed al-Nahayan.

You also refer to Sheikh Mohammad bin Rashid al-Maktoum as the ruler of Dubai and head of the al-Maktoum family. Sheikh Mohammad is the crown prince of Dubai, while his brothers Sheikh Maktoum and Sheikh Hamdan are respectively ruler and deputy ruler of Dubai. All three hold important portfolios in the federal government of the United Arab Emirates. Perhaps one reason why the citizens of the Gulf states are less anxious than you suggest about their dependence on their rulers is because they know who they are.

Simon Schmidt
Abu Dhabi

SIR – In your chart of oil production and reserves ("Middle Earth", March 23rd) you say that proven global oil reserves amount to 1.05 billion barrels. If this were correct, proven reserves would be sufficient to cover only about 14 days of production. I suspect that proven reserves are in fact 1.05 trillion barrels.

B.J. Gevay
Montreal

Editor's note: Mr Gevay's suspicion is correct. Our apologies.

Scrum at the bar

SIR – Scientists now tell us that a controlled experiment shows that exercise and alcohol consumption seem to be symbiotic ("Sweating it out", April 6th). This will come as no surprise to any one who has played rugby.

M.D. Faminow
Montevideo

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

The French elections

After the cataclysm

Apr 25th 2002 | PARIS
From The Economist print edition

EPA

Jean-Marie Le Pen should get no further, but his success has shaken up France. So it should

Get article background

THE supposedly impossible has become political fact: Jean-Marie Le Pen, the 73-year-old leader of the extreme-right National Front, will be the man asking France's 41m voters on May 5th to elect him, and not the incumbent, Jacques Chirac, as their next president. In a first round of voting on April 21st Mr Le Pen shocked all but himself by coming second out of 16 candidates with 16.9% of the vote. Mr Chirac scored 19.9%, the lowest ever by an incumbent president. His long-presumed opponent in the May 5th run-off, the Socialist prime minister, Lionel Jospin, came third with a dismal 16.2%. As the results filtered through, Laurent Fabius, Mr Jospin's finance minister, said the vote marked “a political cataclysm”.

Indeed it does. With due respect to Austria's Jörg Haider or the Dutch Pim Fortuyn, nowhere else in the democratic world since 1945 has a xenophobe as unabashed as Mr Le Pen made such a showing. In 35 of France's 100 departments, he won more votes than any other candidate. In the aftermath of the cataclysm, the immediate questions are why it happened, and what will happen next. The underlying question, however, is whether France's political landscape has changed for ever.

The “why” is easy enough: voter apathy, a plethora of candidates and a readiness—inevitable when a voter has two goes at the ballot box—to cast a protest vote rather than a useful one. Apathy had always been a risk for Messrs Chirac and Jospin. In the final opinion polls before last weekend's first round, 54% of voters still had little or no interest in the campaign, and around 30% had yet to make up their minds which way they would vote.

The risk posed by the array of candidates was less easy to foresee. It seems healthy enough to spice up democracy with a few extra candidates, qualifying because they have received the support of at least 500 elected officials in at least 30 departments. The problem this time, however, was that 16 qualified, four more than the previous record in 1974. The bigger the swarm of minor candidates, the more votes they will pinch from the major ones.

That threat to Messrs Chirac and Jospin came from both ends of the political spectrum. On the left, Arlette Laguiller and her Trotskyite rivals, Daniel Gluckstein and Olivier Besancenot, offered workers' revolution; Robert Hue evoked a moderate, ie, wishy-

washy, communism; Noël Mamère spoke for the Greens; Jean-Pierre Chevènement, a maverick former member of Mr Jospin's government, preached a Gaullist, Eurosceptic vision of French nationalism; and Christiane Taubira, who is black, appealed for cultural diversity. Between them, all these won 26.7% of the vote.

On the right, Bruno Mégret espoused the same "French first" message as his one-time boss, Mr Le Pen; Christine Boutin talked of "family values"; Alain Madelin was a Thatcherite advocate of economic liberalism; François Bayrou called for European integration and the "relief" of France from its old-fashioned politics; and Corinne Lepage spoke up for the environment. Last, but not least in the polls, was Jean Saint-Josse, roaming somewhere in the centre on behalf of countryside traditions of game-shooting and fishing.

Put all those names on the ballot, and it is hardly surprising that both Mr Chirac and Mr Jospin should suffer. The president's score, a whisker ahead of the total vote of the extreme right, is disappointing enough. But for Mr Jospin and the Socialists the score is devastating—and the prime minister, pledging with great dignity to retire from politics once the election is over, blamed it squarely on "the demagogy of the right and the dispersal of the left".

Too many chefs

French presidential first round result, %

Right	
Jacques Chirac	19.9
Jean-Marie Le Pen	16.9
François Bayrou	6.8
Alain Madelin	3.9
Bruno Mégret	2.3
Corinne Lepage	1.9
Christine Boutin	1.2
Unaffiliated	
Jean Saint-Josse	4.2
Left	
Lionel Jospin	16.2
Arlette Laguiller	5.7
Jean-Pierre Chevènement	5.3
Noël Mamère	5.3
Olivier Besancenot	4.3
Robert Hue	3.4
Christiane Taubira	2.3
Daniel Gluckstein	0.5

Source: French interior ministry

Jospin v insecurity

He has a point, but one for which he is in part responsible. The right's "demagogy" is code for *l'insécurité*—a mounting crime-wave running at a speed, according to Mr Chirac, of one act of lawlessness every seven seconds. And who, asks the right, is responsible for maintaining law and order? Not the centre-right president, but the Socialist prime minister with whom Mr Chirac has had to "cohabit" since he called an early parliamentary election in 1997 which was unexpectedly won by the left.

Most of those electors who bothered to vote (the abstention rate was a record 28.4%) chose to ignore a five-year record in government of which Mr Jospin, with some justification, has been proud: the lowering of the numbers of jobless by 900,000, from more than 12% of the workforce to 9%; universal health coverage for the poorest; and the introduction, popular with the workers if not with their bosses, of a 35-hour week. Similarly, they chose to ignore his promises for the next five years: another 900,000 fewer jobless; taxes lowered by *euro*18 billion ($15.6 billion); guarantees for pension levels, regardless of the financial pressures of an ageing population; subsidies galore to help job-seekers; and a "wish" to rehouse all France's homeless within the next five years.

Yet Mr Jospin unwittingly encouraged too many protest votes for his own electoral good. He began his campaign, hoping to win the middle ground, by saying his manifesto was "not a socialist one", but then shifted back to the left as his standing fell in the polls. Add to that an untelegenic air of dour, schoolmasterly stiffness, and it is no wonder that so many of his putative second-round supporters should have voted for his more colourful left-wing rivals. If only, say, Christiane Taubira had chosen not to stand, Mr Jospin would even now be preparing for the second round.

Meanwhile, Mr Jospin must think the gods have unfairly blessed Jacques Chirac. After all, whereas Mr Jospin's image remains one of "Protestant" integrity, Mr Chirac's reputation has been indelibly stained by financial scandals, most of them concerned with financing his own and other parties in the 1980s and 1990s. Indeed, only the immunity enjoyed by a sitting president has kept Mr Chirac from the questions of the investigating judges. Yet, somehow, the voters seem never to have worried too much about the scandals. Politicians are like that. Add to this indifference Mr Chirac's charm, warmth and love of the campaign, and Mr Jospin always knew he had a fight on his hands.

Reuters

The luckiest Frenchman

Mr Chirac is now in theory the winner by a mile. In the second round, the protest voters of the first round will surely decide that he is the safer bet. Much of the left, too, will swallow its disappointment and join forces with the right to ensure Mr Le Pen's defeat. Indeed, no sooner had the results come through than Mr Fabius and Dominique Strauss-Kahn, a former finance minister and close adviser to Mr Jospin, both declared they would vote for Mr Chirac on May 5th. Opinion polls taken after the first round predicted that Mr Chirac would win the second round—and keep his judicial immunity—by a margin of 78% to 22%.

The danger of cohabiting

But the president knows better than anyone that his victory may still come with strings attached: not in the sense that Mr Le Pen's popularity will force him to move in his direction, but rather because the left may exact its price in the parliamentary elections due on June 9th and 16th. One reason that Mr Chirac's Rally for the Republic and its moderate allies lost their parliamentary majority in 1997 was that too many of their voters defected to the extreme right, and so gave victory to the left. Out of more than 70 “triangular” contests between the moderate right, the extreme right and the left, most were won by the left. As Mr Strauss-Kahn puts it: “There is no defeat that cannot be reversed.”

This implies the risk of yet another period of cohabitation for France between a presidency of one political colour and a government of another. Arguably, it is something the voters like. They made President François Mitterrand, a Socialist, cohabit with two centre-right prime ministers, Mr Chirac himself in 1986-88 and Edouard Balladur in 1993-95. Since 1997, they have inflicted a similar punishment on Mr Chirac. But if the voters, at least unconsciously, like the arrangement, the politicians most definitely do not. To them it increasingly seems a recipe for either stagnation or mischief-making.

The question is how, on the basis of the constitution of France's Fifth Republic (a document tailor-made for Charles de Gaulle's return to power), the risk of cohabitation can be minimised. The superficially obvious answer was an amendment, approved by a referendum in October 2000, which stated that the seven-year presidential term would, from the 2002 election onwards, have the same five-year term as the National Assembly, the lower house of parliament. This would, in theory, make it more likely that president and government would be of the same party. Mr Chirac detected a Jospin plot in this, to defeat Mr Chirac first and then use the momentum to gain a majority in parliament big enough to make him independent of his Communist and Green coalition partners. But if there was such a strategy, it has spectacularly failed—and meanwhile the possibility of cohabitation is as real as ever.

Towards a Sixth Republic?

It is that reality, coupled with last weekend's first-round results, that may be sowing the seeds of the Fifth Republic's demise. One of the more interesting findings by the pollsters in the days just before the first round was that only 21% of the electorate consider the next president will be “the most important influence on the way France is governed over the coming years”. By contrast, 59% consider that the next parliament, and therefore the June elections, will be more decisive. Five years of cohabitation have shown that it is the prime minister and his government, not the president, who take the decisions that make a difference to ordinary lives.

As for the president's assumed supremacy in foreign policy or defence, that surely adds up to relatively little when so much is decided either by the European Union as a whole or by NATO. So the Gaullist idea of an all-powerful president delegating power to a subservient prime minister is a nostalgic memory. Take that analysis one step further, and quite a few politicians, both left and right, start talking of a Sixth Republic, one based on either the parliamentary model of Britain or the presidential model of the United States.

But before they decide to make such a choice, the politicians first need to take stock. Was April 21st a cataclysm that has changed their world for ever, or, once the electoral dust has settled, will normal service be resumed?

The answer is surely that normal service—where *la classe politique* rules the roost with little reference to the man in the street—cannot be resumed. Mr Jospin failed to listen carefully enough to the voters' complaints. As Mr Le Pen mockingly reminds the electorate, the prime minister admitted to having been “naïve” in reckoning that crime would come down in tandem with a falling rate of unemployment.

Yet the link is there. It is young men who are responsible for most of France's plague of pickpocketing, muggings and burglaries—and their rate of unemployment is double the overall average of 9%. More to the point, in the *banlieues*, the working-class, disproportionately brown-skinned suburbs of cities such as Nice, Avignon and Strasbourg, the jobless rate can be as high as 40%. Economic logic for many of the young layabouts of the *banlieues* is simple: the best way to make a living is to deal drugs or to steal. And all the while, say their white-skinned critics, their families are receiving, courtesy of the working taxpayer, the benefits of the welfare state. Hence the vote for Le Pen, highest in those areas where the ethnic, and for the most part Arab, minorities are biggest and the white majority correspondingly most angry.

It is this anger that the mainstream parties have so conspicuously failed to defuse. The Jospin answer was to set up a “super-ministry” to co-ordinate France's various, often bickering, forces of law and order and to pour yet more subsidies into youth-employment schemes. The answer from Mr Chirac, who made much of the “social fracture” in the 1995 election but then proceeded to forget it, was more or less the same, and both men in their campaign speeches promised “zero tolerance”.

Too little, too late for many of their erstwhile supporters. By contrast, Mr Le Pen, promoting himself as the “original”, not the copycat, advocate of zero tolerance, gives many fed-up French citizens the answers they want to hear: lock up the criminals (he proposes another 200,000 prison beds); bring back the death penalty; stop immigration; expel illegal immigrants and pay legal ones to leave; stop the proliferation of mosques; and amend the constitution to give preference in jobs, housing and benefits to those who are French by birth or by well-deserved naturalisation.

Add to that his call for a referendum to bring back the franc and to take France out of the European Union, and the mainstream parties are unsure whether to laugh or cry. They cling to the belief that his programme is surely too simplistic to convince the vast majority of straight-thinking voters—yet worry that they will once again be punished by the “protest” votes of those who feel their worries have never been taken seriously.

Hence the wider crisis for France's political system: it risks becoming irrelevant. One sign was the abysmal score last weekend of the Communist candidate, Robert Hue. His 3.4% share of the vote shows that the Communists, until 30 years ago the main party of the left, are on the verge of disappearing. Take away one piece of an antique political structure, and perhaps other pieces will crumble, too. Look at the Rally for France: its Gaullist leader, Charles Pasqua, many times a minister, failed even to qualify as a presidential candidate.

An elite out of touch

In other words, either by abstaining or by voting for the extremists, the electorate has sent a warning: the political establishment has both to modernise itself and get back in touch with the people. But will it listen? The risk on the left is that a demoralised Socialist party will revert to its origins, turning away from the reformist path outlined by Messrs Fabius and Strauss-Kahn. On the right, where Mr Chirac has recently been calling for a united party and where Messrs Bayrou and Madelin talk constantly of reform and renewal, the risk is that the momentum will be lost in factional bickering.

On the other hand, it is possible to be too gloomy. For all Mr Le Pen's shock to the system, four-fifths of the turnout did not vote for a far-right candidate. Indeed, his vote was only a small advance on his scores in previous elections, where turnouts were bigger. Once the news was in, thousands of demonstrators immediately and spontaneously appeared on the streets of Paris and other cities to denounce the Le Pen brand of politics.

Just hours after the polls had closed, Mr Chirac found the grand yet waffly words that most voters wanted to hear. Let the French, he said, “unite to defend the rights of man, to guarantee the cohesion of the nation, to confirm the unity of the Republic and to restore the authority of the state.” Fair enough. But let the re-elected President Chirac then explain to the nation, including the denizens of the *banlieues* and those who misunderstand and fear them, what those words actually mean.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Jean-Marie Le Pen

Superfascist

Apr 25th 2002 | PARIS
From The Economist print edition

Or, as he sees it, the citizens' voice

Get article background

HE HAS been a fisherman, a coal miner, a soldier—in Vietnam, Suez and Algeria—and a small businessman. He is also blind in one eye after a political brawl more than 40 years ago. In short, Jean-Marie Le Pen can honestly say he is a lot closer to the ordinary voter than most politicians. After all, almost half of France's members of parliament are on leave from the civil service.

He is also, as his 74th birthday approaches, one of France's most experienced politicians. He was first elected to parliament, for a right-wing businessmen's party, at the age of 27. Since then he has also been an anti-European Union member of the European Parliament and an elected official for Paris and for the Côte d'Azur. But most important, he remains leader of the National Front, the extreme-right party he founded in 1972. Among his nastier credentials, he once had a business publishing Nazi songs, and has more than once described the gas chambers as “a detail” of the history of the second world war.

One part of his appeal for France's middle and working classes is that he eloquently articulates their fears of immigrants, crime and the supposed threat posed to France's traditions by Europe and globalisation. His cure is an end to immigration, bigger prisons, lower taxes and withdrawal from the EU. His image is macho (a former wife, to cut him down to size, once posed naked in an erotic magazine), his oratory is brilliant, and he lives on a handsome inheritance from a sympathiser, including a villa outside Paris.

When Mr Le Pen's deputy, Bruno Mégret, bitterly split away in early 1999 to form a rival National Republican Movement, a majority of party members sided with Mr Mégret and the National Front's vote in last year's municipal elections fell sharply. But now Mr Le Pen and doubtless his party are back with a vengeance, the true leader and the true vehicle of the far right.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Congressional redistricting

How to rig an election

Apr 25th 2002 | WASHINGTON, DC
From The Economist print edition

In a normal democracy, voters choose their representatives. In America, it is rapidly becoming the other way around

IMAGINE a state with five congressional seats and only 25 voters in each. That makes 125 voters. Sixty-five are Republicans, 60 are Democrats. You might think a fair election in such a state would produce, say, three Republican representatives and two Democrats.

Now imagine you can draw the district boundaries any way you like. The only condition is that you must keep 25 voters in each one. If you were a Republican, you could carve up the state so there were 13 Republicans and 12 Democrats per district. Your party would win every seat narrowly. Republicans, five-nil.

Now imagine you were a Democrat. If you put 15 Republicans in one district, you could then divide the rest of the state so that each district had 13 Democrats and 12 Republicans. Democrats, four-one. Same state, same number of districts, same party affiliation: completely different results. All you need is the power to draw district lines. And that is what America provides: a process, called redistricting, which, through back-room negotiations too boring for most voters to think about, can distort the democratic system itself.

All countries, in the interests of equal representation, adjust their electoral boundaries to reflect population changes. Most democracies hand over this job to independent commissions, which content themselves with tinkering with existing boundaries. In America, in all but a few states, that idea sounds elitist and undemocratic. So every ten years, after the census, politicians in state legislatures meet to draw new voting maps which are approved by the state governor. Since America's population is both faster-growing and more mobile than that of other old democracies, and since the Voting Rights Act actually requires minorities to have special “majority-minority districts” in order to get an equal chance to elect candidates of their choice (ie, their race), redistricters end up doing a lot more than tinker.

The results are as bizarre as you would expect. Florida's 22nd District is 90 miles long and never more than 3 miles wide. It consists of every beach house lining Route A1A along Florida's Gold Coast from West Palm Beach to Miami Beach. You could say about this district, as used to be said of the old Texas 6th (which was a road from Houston to Dallas), that you could kill most of the constituents by driving down the road with the car doors open. Other districts look like donuts, embryos or Rorschach tests.

But the champion

gerrymandering comes from Illinois. Chicago has two Hispanic areas. They are in different parts of the city, but that has not discouraged the good politicians of Illinois from creating a constituency consisting of these two areas only. They lie on either side of a black part of the city like the bread of a sandwich. Worst of all is the state's extraordinary 17th District, which is a crab (see chart). Though most of it lies in the western part of the state, two claws stretch out towards the eastern part to grab Democratic cities in order to make the surrounding 18th and 19th districts more reliably Republican.

Weirdly shaped districts like these are signs that a crime has been committed. Again, start with Florida. This year, the Republican-controlled legislature has proposed a map with 18 Republican-leaning seats and seven Democratic ones. But as the 2000 presidential vote showed, Florida's electorate is split perfectly down the middle. The map has been rigged outrageously to favour the Republicans.

Florida is gaining population and seats. But it is just as easy to rig elections if your population is falling. Michigan, for example, will lose a seat this time. There, the Republican-dominated state assembly has managed to arrange matters so that six Democratic incumbent congressmen will have to slug it out among themselves for only three Democratic-leaning districts. Democrats will probably lose three seats in a state that Al Gore won.

Michigan also provides an extreme example of what clever redistricting can do for an individual. Mike Rogers represents the 8th District around the state capital, Lansing. He squeezed into office by a mere 160 votes in 2000, and had to wait even longer than George Bush for confirmation of his victory. The new redistricting plan tacks on a lot of Republican suburbs to his seat. So, after only two years, the man who won by the narrowest of margins in 2000 finds himself in such a safe Republican seat that no Democrat is bothering to challenge him in 2002.

Needless to say, Democrats are equally partisan. In Georgia they have drawn a map which means they will probably pick up—*mirabile dictu*—both of the state's new districts. And in North Carolina, long notorious for outrageous reapportionment, the chairman of the state redistricting committee is running for a new congressional seat that he himself mapped out.

And now technology makes it worse

Such things have long been staples of American political life. It would be too much to claim that redistricting has fundamentally altered any nationwide election result. But this year is slightly different,

and in some ways worse, for two reasons. First, new software has made it easier to draw more “reliable” electoral maps—ie, to be more exact in your partisanship. Until the 1990s, legislators had to draw districts using coloured pens on acetate sheets spread out on big maps on the floor. Computers appeared in the 1990s, but only big, sophisticated ones could handle the demographic data, putting the cost beyond all but a few states.

Now the Census Bureau puts out digitised maps, called TIGER/Line files. New geographic information systems for mapping and analysing demographic data cost only a few thousand dollars, work on ordinary Windows operating systems, and can draw up partisan maps automatically. This has turned gerrymandering—sorry, redistricting—from an art into a science.

Second, the 50-50 split in the 2000 election has changed what the parties want from redistricting. Under the old plans, you maximised your seats by drawing up districts which you would win narrowly. That was risky, because it gave your opponents a chance. Now the parties have adopted a policy of safety first. Because the House of Representatives is so closely balanced, legislatures try to maximise the number of safe seats for each side, drawing competitive districts only if they cannot avoid it.

In California, the Democrats in the legislature passed up a chance of grabbing risky seats from Republicans, and approved a map with only one competitive district out of 53 seats in Congress. That district is the disgraced Gary Condit's. “If the average Californian doesn't like his congressman,” says a Republican adviser, Dan Schnur, “the only option is to call the moving vans.” It is a similar story in the other big states that have issued their maps so far.

All in all, reckons Charlie Cook, a political analyst, with four-fifths of the states having issued their new district plans, there will be fewer than 50 competitive races this time (meaning races in which the candidates are only a few points apart) compared with 121 ten years ago. Of those 50, only half will really be toss-ups. This is worsening existing trends. In 1998 and 2000, nine out of ten winning candidates in the House of Representatives won with 55% of the vote or more. That was the lowest percentage of close races of any election year since 1946, save one. In other words, redistricting is becoming a glorified incumbent-protection racket. And that is having all sorts of odd effects.

For one thing, it means the Democrats probably cannot take over the House this year unless a miracle occurs. The House will be decided by the toss-up seats. Roughly half of them are Democratic, half Republican. To overcome their current six-seat deficit, therefore, Democrats will have to take three-quarters of the closest seats—something they cannot do unless there is a dramatic change in the national mood.

The 2002 redistricting plans are making an already change-resistant Congress even more immutable. Only six sitting congressmen were defeated in the general election in 2000, a re-election rate of 98%. Such a result, which would hardly shame North Korea, is becoming the norm: the re-election rate has averaged more than 90% since 1952. Not surprisingly, congressmen are reluctant to leave their warm nests. Only 28 have announced their retirements so far, compared with 64 in 1992.

The combination of larger numbers of safe seats and increasingly expensive election campaigns is undermining the quality of American politics. There are now two categories of House races: the overwhelming majority, where the incumbent is a shoo-in and which national parties ignore, and a tiny number of competitive races into which the parties pour all their money and energy. Of course “all politics is local”. But in the current political arrangement, the local concerns of a handful of seats are inflated by a vast amount of national attention and end up deciding the balance of Congress.

Redistricting is also reinforcing a self-perpetuating quality in American politics. Incumbents anyway find it easier to raise money than challengers (House incumbents outspend challengers by five to one.) If they can make their seats safer by redrawing boundaries, they discourage challengers even more. And that in turn must depress voter turnout. The connection is not direct, since turnout usually depends on the races at the top of the ticket—for president or governor. But it is hard to believe there is no link between America's astoundingly high re-election rates and its astoundingly low voter turnout.

Putting it into cleaner hands

So what, if anything, can be done? Some states already use alternative systems that could be copied. Iowa lets civil servants draw new lines without reference to incumbents or regional voting patterns (rather as in Europe). Five other states hand redistricting authority over to bipartisan commissions,

sometimes with a neutral tie-breaker approved by both parties.

Neither system works perfectly. But either would be better than the existing one. Both would limit partisan gerrymandering by removing debates about redistricting from legislatures, leaving them free to get on undistracted with their proper business, such as crafting budgets. Best of all, they do seem to work quite well. Washington and Iowa—which use alternative systems—saw more competitive House races in the 1990s, in proportion to their population, than other states.

Extending such practices would not be easy: politicians would naturally be reluctant to cede power. But even this barrier is not insuperable, at least in states which allow people to sponsor referendums. Citizens in Arizona, for instance, demanded a referendum to approve a redistricting commission in 2000, and, to the surprise of most experts, the measure passed. As the campaign-finance battle has shown, it is possible to reform America's electoral system, even if it takes years. And there are still years to go before the 2010 round of redistricting arrives.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The United States and Venezuela

Tales from a failed coup

Apr 25th 2002 | CARACAS AND WASHINGTON, DC
From The Economist print edition

From Venezuela, disturbing evidence of American incompetence

Reuters

Tricky types to work with

THE Bush administration's behaviour during the failed coup against Hugo Chavez is becoming a foreign-policy embarrassment. Christopher Dodd, a senator from Connecticut, is looking into what officials did and said during the chaos in Caracas. Did they know about the coup in advance? Did they help plan it? And what damage has the coup and its failure done to America's credibility?

The administration argues that since it had no idea a coup was coming, it could not have been involved in planning it. If that is true, it is a disturbing intelligence failure. Practically everyone in Venezuela knew a showdown was imminent. The CIA should surely have known it too.

The real issue is whether the administration was involved in planning the coup. American officials had contacts with the conspirators beforehand, and these contacts may have been more extensive than the administration at first admitted. But that proves nothing. Scores of Venezuelans, some of them anti-Chavez, troop through Washington all the time. So what?

Two individuals, however, have connections with both the White House and the coup. One is Gustavo Cisneros, a close friend of the Bush family. He is one of Latin America's richest men and owns the largest media group in Venezuela. He is also of Cuban descent. Rumour in Caracas says he bankrolled the coup, but there is no evidence of that. He was inside the presidential palace around the time of the coup and was called twice by Otto Reich, America's assistant secretary of state for the western hemisphere. But what Mr Cisneros was doing is unknown. Mr Reich says the calls were for information.

The other person is Luis Giusti, a former head of Venezuela's state oil company. He has ties with the White House as an energy adviser. The coup was triggered by Mr Chavez's attempt to take over the state oil company. Mr Giusti's political allies backed the coup. But otherwise the evidence linking him, or the administration, to the coup is circumstantial, at best.

The real charge against the Bush administration lies elsewhere. On the first day, officials failed to condemn the coup and did not criticise the suspension of the National Assembly. They took Mr Chavez's “resignation” at face value. It was not until Latin America's leaders strongly condemned the coup that the administration changed its tune, with Colin Powell saying what should have been said at first: that the

violent overthrow of a government is against American values and interests.

In recent years, by supporting the continent's “new democracies”, the United States shook off its old reputation for treating Latin America as its back-yard. It has now got some of that reputation back, and at a time when it stands accused of abandoning Argentina to chaos, of failing to fulfil promises of free trade and of disappointing Mexican hopes of a deal with America on immigration.

The administration has also shone an unflattering light on its internal policy-making. George Bush himself has been an enthusiast for closer ties with Latin America, and has warmly embraced the “democracy clause” that requires members of the Free Trade of the Americas agreement to have elected governments. But many of his appointments come from an earlier stage in America's policy evolution: the “our-son-of-a-bitch” tradition. Three of the mid-ranking Latin America officials at the National Security Council, State Department and USAID are Cuban-Americans and staunch anti-communists. The Cuban connection mattered in Venezuela because Mr Chavez, an ally of Fidel Castro, ranks second only to the Cuban dictator in Cuban-American demonology.

Two other officials came to notoriety during the scandal over the Nicaraguan contras. Elliot Abrams pleaded guilty to lying to Congress about that policy; he has re-emerged as head of the NSC's office for democracy and human rights. John Negroponte was ambassador to Honduras during a savage period of repression; he is now ambassador to the United Nations.

But the most controversial figure is the man mainly responsible for policy in the region: Mr Reich, a Cuban-American who ran the State Department's office of public diplomacy in the 1980s, which, according to Congress, helped Oliver North raise money for the contras. Mr Dodd blocked debate on his nomination, and he took up his post only after a “recess appointment”, allowing him to do his job for a year without Senate approval. The coup in Venezuela has deepened suspicions in Washington and Latin America about the people running American policy; and all the more so when the foreign-policy heavyweights, like Mr Powell, have their hands more than full elsewhere.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Non-proliferation policy

Stopping the cheats

Apr 25th 2002 | WASHINGTON, DC
From The Economist print edition

Not unilateralist, just tough

“I DON'T get up in the morning and ask what international organisation can we whack today,” chuckled a senior administration official recently. Critics aren't convinced. In its determination to deal with George Bush's “axis of evil” (Iraq, Iran and North Korea), and other countries that stand accused of secretly building weapons of mass destruction, the Bush administration, they claim, is riding roughshod over multilaterally-agreed anti-proliferation rules. It refuses to seek ratification of the test-ban treaty, has torpedoed efforts to bolt a controversial inspection regime on to the biological-weapons ban, and announced America's withdrawal in June from the Anti-Ballistic Missile treaty with Russia. This week it led a censure vote that bounced José Bustani, the Brazilian head of the organisation monitoring the abolition of chemical weapons, out of his job, though it said it would welcome another candidate for the post from a developing country.

America is not unilateralist, argues the senior official; all this is “newly invigorated engagement”. A new national strategy will lay out what remains to be done to deal with the proliferation of nuclear, chemical and biological weapons. What is more, says another official, with cause, America does a lot more than governments that criticise it to stem the flow of these weapons technologies: “They [Russia, China and others, including North Korea and Iran] actively ship technology.”

The administration is keen to strengthen the International Atomic Energy Agency (IAEA), which monitors nuclear activity in countries that belong to the Nuclear Non-Proliferation Treaty; to enhance co-operation in the Australia Group, an informal body that attempts to track troubling chemical and biological trade; and to strengthen a code of conduct on missile-technology transfers. It has also found more money to prevent the leakage of materials and expertise from Russia's nuclear-, chemical- and biological-weapons establishments.

But it is also determined to be tougher on cheats. John Bolton, the State Department official responsible for arms control and non-proliferation, has not been shy of naming names around the negotiating circuit. Undiplomatic? Others insist this is a better way of building the credibility of arms-control agreements than simply watching countries cheat on in silence.

Some would go much further. The divisions within the administration on Iraq are public enough. All want to see Saddam Hussein parted from his illicit weapons, as UN resolutions demand. But while one group is working to get international inspections re-started, hoping to build support for tougher action should Iraq, as expected, fail to comply, others see little point in such niceties.

A similar faultline runs through policy on North Korea. A news report quoted one official to the effect that the administration would pull out of the 1994 agreement with North Korea, which froze its plutonium-making capacity in return for a promise of two western-designed nuclear-power reactors and deliveries of oil until they were built. But this was “not the inter-agency consensus”, retorted another official, clearly irritated. The resulting compromise has been a refusal to certify that North Korea is fulfilling all the terms of the 1994 agreement, while issuing a waiver to allow oil deliveries to continue this year. That merely serves notice, insists one hardliner, that the deal will come to an end.

Another way of taking on suspected rule-breakers would be to revive challenge inspections, available to the IAEA and to chemical-weapons inspectors. A criticism of Mr Bustani was that he wanted to try chemical inspections in Iraq when his inspectors had conducted no challenge inspections anywhere else—and when UN inspectors in Iraq, with tougher rules, had often been stymied.

But if America hopes to press for more challenge inspections under Mr Bustani's successor, it could run

into problems. In ratifying the chemical ban, Congress gave America's president the right to turn down such inspections on grounds of national security. Leaders of other countries may feel entitled to do likewise.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Catholic church in crisis

When in Rome

Apr 25th 2002 | NEW YORK
From The Economist print edition

America's cardinals hoped to make progress—hopes largely dashed

Reuters

Get article background

THE final statement of America's cardinals, after their summit with Pope John Paul II in Rome on April 23rd and 24th, could have been predicted as they stepped off the aircraft. They had taken no decision, they said, about expelling priests automatically from the priesthood once they are found guilty of sexual abuse. They had discussed it, but the "special process" required would not be finalised until the bishops meet in Dallas in June.

That was hardly what American Catholics had been hoping for. For months, revelations of sexual abuse by priests have battered the church. Donations by the faithful have dropped sharply, and many Catholics have come close to losing their faith altogether. When the pope summoned all 12 American cardinals to the Vatican to discuss the subject, some members of the American laity hoped for great things. There was even talk of a "Vatican III", where sweeping changes might be considered to the rule of celibacy and the role of women in the priesthood. The church, of course, does not work that way at all. As it turned out, the cardinals did not make much headway even on the narrow topic to which they restricted themselves.

The summit followed a secret meeting last week between the pope and Cardinal Bernard Law, the lightning-rod for the scandal. Cardinal Law has been under pressure to resign because of the way he dealt with cases of abuse in his archdiocese. In a recent poll, three-quarters of Catholics said he should go. Some cardinals are rumoured to want him out too, but the pope showed no sign of pushing for that. In the church's eyes, Cardinal Law did what was appropriate: he ran his own archdiocese in the way he thought best, with little or no interference from Rome, and kept unholy matters under the carpet.

In some ways, the pope sounded encouragingly uncompromising at the summit. He called for zero tolerance and said there was no place in the priesthood for abusers. Paedophilia, he said, was an "appalling sin" and a crime (a departure, this, for the Holy See). Yet his statement, strong as it was, has also caused confusion among the cardinals. The pope has not given them any practical advice on how to deal with past abusers. The cardinals were not sure, either, how to implement his message. The pope called for forgiveness for the priests concerned, but this focus on redemption is hard to square with zero tolerance. There is certainly zero tolerance in the Vatican, so far, for shifting responsibility for the punishment of erring priests from the spiritual to the secular authorities, as even some cardinals would like.

Most American Catholics, particularly in Boston, are disappointed the pope remained quiet for so long. They are equally disappointed with the cardinals' lack of progress. "We cannot turn to Rome for the salvation of the church," says Jim Muller, a Boston cardiologist. In response to Cardinal Law's inaction, Dr Muller founded a group called "Voice of the Faithful". The organisation, which has grown exponentially and has gained much media attention, wants the laity to have a role in reshaping the church and wants immediate action against erring priests.

This will hardly cause the Vatican, which has ignored the laity for centuries, to shiver in its shoes. But Dr Muller points out that laymen are not powerless. They are the primary source of the church's income in the United States. Some American Catholics have already stopped charitable giving, which has frightened the hierarchy. According to Dr Muller, the problem is not just paedophile priests. As dismaying to

Catholics is the fact that the hierarchy, in protecting such priests, plainly cared more for the institution of the church than for the souls of its children.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

Out from Rudy's shadow

Apr 25th 2002
From The Economist print edition

Mike Bloomberg has made a remarkably good start as New York's mayor

Get article background

DOMINANT political figures can cast a long shadow over those who follow them. Rudy Giuliani, New York's previous mayor, almost single-handedly pulled the city back from ungovernability and turned it into one of the world's better run metropolises. On and after the terrorist attacks of September 11th, his leadership was inspiring. When Mike Bloomberg was elected last November to follow him, many thought that this billionaire and political virgin would be a pale flop by comparison, quite unable to fill the void that Mr Giuliani had left.

Not so. Less than four months after it ended, the Guiliani era already seems an age ago to most New Yorkers. It not only feels normal to have Mr Bloomberg as mayor, but also normal to think that he is rather good at it. He has made no serious gaffes—despite the efforts of journalists to get him to tell one of the off-colour jokes with which he famously used to regale employees of his media company. So far, his toughest press has come when he took a weekend break in Bermuda (who was running the city?) and when a drugs-legalisation campaign publicised his confession that he had enjoyed smoking cannabis. Since he seems such a competent manager of the city, New Yorkers did not care. The happy sensation may not last: Mayor Mike has some tough battles ahead, starting with the current negotiations to close a nearly $5 billion deficit in the city's budget. But the omens are surprisingly good.

Comparisons with his predecessor are still inevitable, of course. New Yorkers cannot help noticing that Mr Bloomberg's matter-of-fact public utterances, which often leave the impression that he would rather be elsewhere, are no match for Mr Giuliani's at their best. But to compare the public personas of the two men misses the point. Until September 11th, most pundits had concluded that Mr Giuliani's public face was more of a liability than an asset, and had taken the shine off his achievements in City Hall. There he had instigated a management revolution, introducing such radical (for New York) changes as budgeting, setting goals and measuring performance. It turned out that the city had been not so much ungovernable as ungoverned. Mr Giuliani brought both a vision—of a safe, attractive, hard-working city—and a mastery of the detail needed to implement it. In this respect, Mr Bloomberg represents an evolution of the Giuliani approach, not an alternative to it.

Mr Giuliani managed the city like a traditional American chief executive: he was in charge, he took the decisions, he got the glory. Mr Bloomberg's approach is different. He has transported the open-plan philosophy of his corporate offices to City Hall, where he sits at a desk surrounded by a “bull-pen” of his senior officials. The atmosphere is less formal, less hierarchical and strikingly unbureaucratic. Mr Bloomberg seems happier than his predecessor to let officials run their departments and take credit where it is due, without micro-managing their every decision. His officials have been selected on merit, not party loyalty, and include a mixture of Republicans, Democrats and people of no political colour at all.

Mr Bloomberg, like his predecessor, demands absolute loyalty. But he seems less inclined to question whether he is getting it. Those who know him well say he is relatively uninterested in whether other people acknowledge his success, relying on his own judgment of how well he is doing. Some even claim that Mr Bloomberg will not care if he fails to win re-election (if he runs at all), provided he believes he has done a good job. As a result he has no need to indulge in political games and spin, but can concentrate on doing the right thing. Which, it turns out, may be the perfect way to devise his political strategy.

A manager, not a bruiser

Mr Giuliani had no choice but to be a bruiser and a control-freak. The city's bureaucracy and entrenched public-interest groups fought him every inch of the way. Mr Bloomberg inherits a bureaucracy house-trained by his predecessor—or, perhaps, terrified of misbehaving and thus engineering his return. Public opinion had already swung behind Mr Giuliani's agenda, if not necessarily his personality, before September 11th, and has become more united still in the aftermath of the attacks. Everybody agrees on the huge problems the city faces: the budget deficit, failing schools and the need to rebuild the downtown area around Ground Zero. In these circumstances, a good manager, not a good politician, is what the public wants and City Hall is ready for.

Mr Bloomberg's budget, just announced, neatly shares the pain of $1.9 billion in spending cuts between city employees and those they serve. All the city departments have taken a chop, and there are some cuts in services, with talk of many more. This political even-handedness, however, makes the public feel that the mayor's policy proposals are the best technical solution to problems, not a politically-charged package. When Mr Bloomberg refuses to increase taxes—arguing, in his technical way, that this would lower the city's bond ratings and thus raise its borrowing costs—the public is inclined to take him seriously, rather than jumping to the conclusion, as the councillors claim, that he is just a Republican low-tax zealot. Likewise, his bid to take control of the city's schools by abolishing the Board of Education may succeed because it is presented as an obvious practical step to solving a problem. (Under Mr Giuliani, the same policy was successfully opposed as a piece of ideologically-driven empire-building.) The left-leaning city council, with two-thirds of its members elected for the first time, risks becoming hugely unpopular if it turns down Mr Bloomberg's budget plan.

Surprisingly, then, Mike Bloomberg's political naivety has so far been a blessing rather than a curse. His best hope for continuing success is that New Yorkers go on seeing him not as a politician, but as a businessman.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Argentina's collapse

Return to the dark ages

Apr 25th 2002 | BUENOS AIRES
From The Economist print edition

EPA

The politicians have refused to share out the cost of economic collapse. Inflation will now do the job, and may take the government with it

Get article background

ONCE again, Argentina is staring at an economic and political abyss—and this time it seems likely to fall into it. Less than four months after being chosen by Congress as the country's fifth president in a fortnight, President Eduardo Duhalde is back to square one. By jibbing at a plan to convert bank savings, frozen since December, into bonds, Congress sealed the resignation of Jorge Remes Lenicov, the economy minister, on April 23rd, and cast doubt on Mr Duhalde's own survival. Mr Remes was already damaged by having returned empty-handed from meetings with IMF officials and G8 finance ministers last weekend. Hopes of clinching a deal with the IMF appear to have gone. Instead, Argentina seems set for a surge of inflation and months of political turmoil.

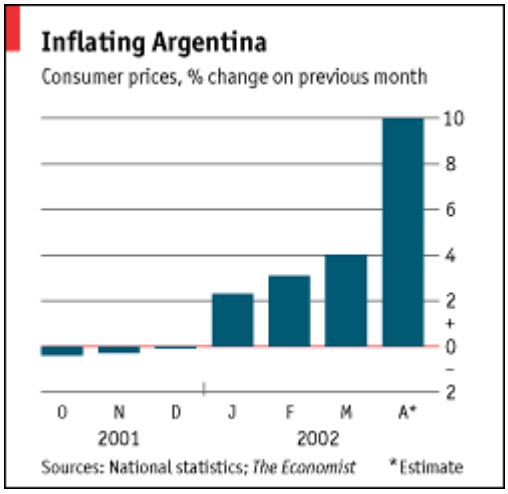
Mr Duhalde was chosen after riots toppled Fernando de la Rua and spelled the end of Argentina's decade-old fixed exchange rate. This week, he in effect told Congress that it should back him or sack him. But if he survives for a while longer, it will only be because there is little idea of how to replace him. Although several provincial governors from his Peronist party favour calling immediate elections, there are few volunteers to manage the political mess and moribund economy while the voters choose a new president.

But it is also clear that Mr Duhalde is now operating on a short leash. This week he was desperately trying to reach agreement with the Peronist provincial powerbrokers on a new economy minister. The president's first choice, Alieto Guadagni, was turned down as too orthodox. Whoever is chosen faces conflicting demands from the IMF, the government's querulous political base and the angry streets.

Mr Duhalde had come to pin all his hopes on an agreement with the IMF. But having at first seemed unwilling to take the steps required to clinch it, he was then unable to gain political support for them. These included the repeal of two populist anti-bank laws, and, especially, watertight measures to cut public spending, particularly by provincial governors.

Officials in Washington were exasperated by the government's failure to implement any of these promised reforms. But Mr Duhalde argued that the cuts meant sacking 400,000 public employees in the provinces, which was impossible to reconcile with his need to buy support in Congress. Many Argentines believe that

the IMF, having been criticised for backing the fixed exchange rate long past its useful life, was slower and sterner with Mr Duhalde than with his predecessors.



But the breaking point for the government came over a new rescue package for the stricken banks. Mr Duhalde inherited the freeze on savings. This staved off an immediate banking collapse, but enraged middle-class depositors, and drained the economy of liquidity, worsening a depression that has already lasted almost four years. The IMF forecasts that GDP will contract by between 10% and 15% this year.

Mr Duhalde's policy on the banks has been characteristically erratic. He first promised that savers in dollars would recover their funds in the original currency. He then decreed that the money be converted into pesos. Judges, in an effort to curry popularity, stepped in: despite the freeze, this month $80m a day has been leaving the banks, as thousands of depositors won court rulings freeing their money.

On April 18th, the Central Bank suspended the local subsidiary of Canada's Scotiabank for 30 days owing to “liquidity problems”. It followed this by declaring an indefinite bank holiday: this week Argentines were desperately scurrying from one empty cash machine to another. The government also asked Congress to approve the forcible conversion of deposits to ten-year government bonds. But as angry demonstrators converged around Congress, inside it the cross-party alliance that has sustained Mr Duhalde prevaricated.

So what now? Congress approved a bill to prevent depositors from recovering their funds through legal action until the banks have had a chance to appeal to higher courts. Like many of Mr Duhalde's measures, this will merely buy time, perhaps a couple of months. It may also be unconsitutional. But it could allow the lifting of the bank holiday.

Mr Duhalde insisted that there was no alternative (economic) plan, “just a plan in difficulties”. But he also mooted a new effort to fix the exchange rate (since January, the peso has plunged from par with the dollar to around 3.20 this week). The provinces have again promised to sign pledges to cut spending, but unless backed by swift and powerful legislation, such commitments will be met with scepticism. The government could use Central Bank reserves to shore up the banks. But these now stand at just $12 billion. So it is likely to start printing more pesos than planned.

Everything now suggests that the tacit economic policy of both government and Congress is inflation. This would wipe out debts and the value of public spending, but also erode incomes, especially those of the poor. Retail prices have already risen by 9.7% in the first quarter, and this month alone may rise by over 10%.

Since nobody wants to hold pesos, de facto dollarisation may lie around the corner. When told by an economy ministry official that Mr Duhalde would, as a last resort, lift restrictions on bank withdrawals and “let happen whatever God wants” one banker is said to have replied “the only problem is that even God wants dollars”.

Even an increase in prices of 50% might do more social damage than Argentina's hyperinflation of 1989-90, argues Artemio Lopez, a sociologist. That is because back then Argentina was close to full employment. Now unemployment stands at 23%, and 57% of Argentines are now officially classed as poor, meaning that they have an income of less than $220 a month for a family of four. One in five lack the income to meet basic nutritional needs.

Floating the peso in a dollarised economy was never going to be easy. A government that inspired confidence could have pulled it off, opening the way to recovery. But Mr Duhalde has not inspired trust—and now looks even less likely to.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Ecuador's economy

Banana skins

Apr 25th 2002 | QUITO
From The Economist print edition

The children of the plantations

BANANAS are big in Ecuador. It is the world's leading exporter of the fruit. One way or another, one out of ten people in a population of 12m depends on the banana industry, which generated exports of $827m last year (or 4.6% of GDP). But is this yellow gold built on child labour and other abusive labour practices?

In a report this week, Human Rights Watch, a New York-based group, claimed that children as young as eight are forced to work 12-hour days on plantations where they are exposed to toxic chemicals and sexual harassment. The report was based on interviews with 45 children, of whom 40 said they had to continue working while toxic fungicides were sprayed from crop-dusters flying overhead. The children were paid an average wage of $3.50 per day, or less than 60% of the amount that is paid to an adult worker.

Banana-industry officials admit that about 3% of the industry's farm workforce (or 7,500 people) is under the legal working age of 14. But they say that eliminating child labour is not simple. Unlike Central America, where American multinational firms own almost all banana plantations, 70% of Ecuador's 6,200 banana producers are smallish family farms. Most of the child labourers work on their parents' farms.

The growers also claim that they are victims of the export firms, which have political clout as well as market power: a quarter of total exports are handled by companies owned by the family of Alvaro Noboa, Ecuador's richest man and a leading candidate in this year's presidential election. The growers complain that the local price of a box of bananas, which the government has fixed at $2.90, has squeezed their profit margin almost to nothing. With the export price at over $17, the growers say they should be getting more.

Everyone agrees that child labour in Ecuador is a consequence of poverty. “Just because they are under age doesn't mean we should reject them, they have a right to survive,'' said Simon Canarte, of the banana growers' association. “You can't just say they can't work, you have to provide alternatives,” adds Martin Insua, the labour minister. The government is working with the International Labour Organisation on a pilot project to persuade parents to send their children to school, and to stimulate alternative sources of income. But that is going to take time.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Colombia's conflicts

The FARC turns the screws

Apr 25th 2002 | BOGOTA
From The Economist print edition

Applying the IRA's lessons

Get article background

UNTIL recently, Colombia's armed conflicts seemed hopeless, but remote. Left-wing guerrillas and their right-wing paramilitary foes battled for control of territory and drug-trafficking routes in the far-flung countryside, while Bogota's businessmen loosened their ties over martinis in fashionable city restaurants.

No longer. Even before, but especially since, the collapse in February of three years of peace talks, the FARC, the largest guerrilla group, has started to bring its terrorist war to the cities, with a wave of bombings and brazen political kidnappings. This coincides with the campaign for a presidential election on May 26th, which polls suggest will be won by Alvaro Uribe, who has promised tougher military action against violence. The FARC's response seems designed to demonstrate to urban Colombians that their armed forces are unable to protect them.

This month began with a particularly cruel bombing in Villavicencio, a commercial centre in the *llanos* (tropical lowlands). Police say that FARC militiamen first exploded a dynamite stick in a crowded night-club area, drawing spectators to the scene. A second, larger, explosion then killed 12 and wounded 70, also damaging a radio station that had received threats from the FARC for broadcasting press releases from Mr Uribe. That was the tenth bomb in the *llanos* this year, according to the army.

Days later, smaller bombs designed to spread panic exploded in Bogota. On April 14th, Mr Uribe escaped unharmed from a murder attempt, while campaigning in Barranquilla. A bomb damaged his armoured jeep, and killed three passers-by. The army believes, as its commander told a congressional hearing in Washington this week, that in its more frequent and sophisticated use of explosives, to terrorise civilians as well as kill soldiers, the FARC is applying lessons learned from three IRA men captured last year in Bogota.

However that may be, the FARC's prowess at kidnapping is home-grown. Disguised as an army bomb-disposal squad, guerrillas entered the department assembly in Cali, Colombia's third city, on April 11th and evacuated 12 assembly members into a waiting bus, never to be seen again. Ten days later the FARC abducted the governor of Antioquia department, together with a former defence minister, from a peace march near Medellin.

These hostages join Ingrid Betancourt, a presidential candidate, a senator and six congressmen already being held by the FARC. The guerrillas hope to exchange these prisoners for their own jailed commanders. In the past, they might have got their way. But now Colombians are less inclined to appease the FARC.

Mr Uribe, an independent Liberal, embodies that new mood. His tough stance has catapulted him to around 50% in the opinion polls. President Andres Pastrana, having tried and failed to make peace with the FARC, seems to have taken note. As the army pursued the Cali kidnappers into the mountains around the city, one of the hostages called a local radio station. He pleaded for the army to stand down to avoid civilian casualties. Last year, after a similar mass abduction, Mr Pastrana called the army off. This time,

so far at least, he has not.

The FARC's calculation is that public support for a firm line will be undermined by repeated bombings and kidnappings. Though strengthened by American military aid, the armed forces are hopelessly overstretched in trying to contain the 17,000-strong FARC, let alone the 10,000 paramilitaries. The police claim to have thwarted many attacks, defusing 87 bombs so far this year. They will have their work cut out in the coming months.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics in Peru

Digging for truth

Apr 25th 2002 | LIMA
From The Economist print edition

Trying to heal the wounds of a past war

Get article background

ANGELICA MENDOZA has not seen her student son since 1983, when he was dragged from home by soldiers in the middle of the night. He was one of thousands who “disappeared” in a brutal war between Sendero Luminoso, a Maoist guerrilla group, a smaller rival, and the security forces, which lasted from 1980 until the mid-1990s, killing 30,000 people.

This month, Mrs Mendoza told her story again in her native Quechua language to the first public hearings of Peru's Truth and Reconciliation Commission. Set up in June 2001 by a caretaker government, this has been expanded by President Alejandro Toledo. It members are mainly academics, priests and lawyers. Its tasks are to explain the causes of the violence, identify those responsible for still murky killings, and seek national reconciliation.

Such an exercise would have been unthinkable under Alberto Fujimori, Peru's ruler from 1990-2000. He crushed the guerrillas, but also enacted an amnesty that absolved all military personnel from responsibility for all abuses from 1980 onwards. Before that, under democratic governments in the 1980s, several massacres were investigated, but only a handful of soldiers or police were tried, and even fewer sentenced, for murder.

In a case last year, the Inter-American Court of Human Rights ruled the amnesty law invalid, and ordered Peru to compensate relatives of 15 people killed by a government death-squad at a barbecue party in 1991. Now Peru's courts have also thrown out the amnesty law, paving the way for past cases to be reopened.

But truth and justice are not necessarily welcome in a country exhausted by terrorism and other ills. The media has reacted with apathy to the commission. That may be because, unlike in dirty wars in Argentina and Chile in the 1970s, in Peru three out of four of the victims were Andean peasants or Amazonian natives. “It was as though it was happening far away in another country such as Afghanistan,” says Walter Alban, the ombudsman.

As for the armed forces, though weakened by their involvement in Mr Fujimori's corrupt regime, they are likely to resist if the commission tries to pin responsibility on individuals. APRA, the main opposition party, is also critical, accusing the commission of a bias to the left. Not irrelevantly, APRA's leader, Alan Garcia, was Peru's president at the height of the dirty war. Others worry that Peru is too poor to afford compensation for victims. Mr Toledo agreed to pay $175,000 each to the families of those killed at the barbecue party, sparking wider hopes.

Although many abuses were already documented, more than 100 previously undiscovered common graves have been registered in the past year. This, says, Carlos Ivan Degregori, an anthropologist who sits on the commission, is because relatives are losing their fear of reprisals. In the commission's first exhumation of such graves, in the Andean village of Chuschi, bodies were identified and returned to grieving families. “It's an important part of reconciliation,” Mr Degregori says.

But many bodies were dumped in rivers or burned. In other ways, too, the commission will not meet expectations. Rolando Ames, another commissioner, says that though the panel expects to receive the testimony of up to 12,000 witnesses, it may be able to name those responsible in only around 100 prominent cases.

The commission has also raised hackles by deciding to listen to jailed guerrilla leaders. Abimael Guzman, Sendero's leader, who claims to have renounced violence, wants an amnesty and political status, and improved prison conditions. But the commission is unlikely to go beyond calling for humanitarian prison conditions. Mr Degregori says that Mr Guzman has not apologised for his war.

In the end, the commission's power will depend on whether Peruvians think it legitimate. They may: a poll taken in Lima after the public hearings found that 64% approved of the commission and 68% thought its findings should be pursued by the courts. The real test will come when the commission reports in July 2003, trying to identify responsibility while also promoting reconciliation. After years of silence, it is worth trying.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

America and China

China's worrying friendships

Apr 25th 2002 | BEIJING
From The Economist print edition

A flaw appears in the alliance against international terrorism

Reuters

A MERE seven months ago it was possible to say that the terrible events of September 11th at least provided China and the United States with a chance to put aside their differences and use the war against terrorism as a unifying theme around which to reconfigure their relationship. That view may now look to have been too optimistic.

This week, Hu Jintao, China's vice-president and likely successor to Jiang Zemin as the nation's leader, left for his first official visit to the United States with plans to meet President George Bush and the vice-president, Dick Cheney. On April 24th, in a stopover in Kuala Lumpur, Mr Hu made what looked like a sideswipe at his American hosts. While not mentioning the world's only superpower by name, he said in a speech to a Malaysian think-tank that China “opposes the strong lording it over the weak and the big bullying the small.” China, by contrast, “has long pledged not to seek hegemony” in its region.

Mr Hu's travels follow a trip by Mr Jiang that ended on April 20th and which took him to, among other countries, Libya and Iran, both of which have been labelled by the United States as state sponsors of terrorism. The picture (above) of the smiling Mr Jiang with the Libyan leader, Muammar Qaddafi, is unlikely to have raised a smile in Washington. In Tehran Mr Jiang used a television interview to set out China's view of the Israeli-Palestinian conflict: that it was critical of “Israeli killings”, and that Israel should withdraw from all occupied territories.

But China's main concern, and the one that is likely to be top of Mr Hu's list in his talks with the Americans, is much closer to home. This is American military and political support for Taiwan, which China considers its own.

According to the thinking among military and intelligence officials in China after September 11th, the two countries stood a chance of returning to something more like the cosy days of the 1980s, when the Soviet Union served as their common foe. The new common foe was international terrorism. The need to defeat it did allow the two countries for a time to paper over their differences. China raised no serious objection to the American-led attack on its neighbour Afghanistan. Indeed, the defeat of the Taliban undermined Muslim separatism in China's north-west. The Chinese looked the other way when several thousand American soldiers were stationed in Kirgizstan, on China's western border.

The tolerant mood was apparent during Mr Bush's short visit to Beijing in February and his talks with Mr Jiang. Although the two men seemed unable to establish a personal rapport, their teams of advisers achieved their modest goal of sidestepping problems and maintaining a cordial tone. But the winds of

March blew cold. The Taiwanese defence minister, Tang Yao-ming, was allowed to visit the United States to attend a defence contractors' convention in Florida, where he met the American deputy defence secretary, Paul Wolfowitz, and an assistant secretary of state, James Kelly.

These contacts were among the highest-level known to have taken place between American and Taiwanese officials since 1979, when the United States shifted diplomatic recognition from Taiwan to China. The Chinese were deeply disturbed and were none the happier when it was reported that Mr Wolfowitz had repeated words used by Mr Bush last year, that America will do “whatever it takes to help Taiwan defend itself”. China is likewise annoyed with the American Congress for supporting Taiwan's entry to the World Health Organisation, a privilege the Chinese government insists can be offered only to a sovereign country.

To China, all of this feels like a slap in the face. “China tried to co-operate with the Americans in the war against terror, but the Bush administration is not doing much to promote the relationship,” says Jia Qingguo of Beijing University's School of International Studies. Mr Jia finds it particularly alarming that the American government is expanding its military dealings with Taiwan while essentially banning any form of military contact with China. He frets that if hawks in the Bush administration “push things too far, we might face a crisis”. On the other hand, Robert Ross, of Boston College, says that the dominant line coming from China is that the Taiwan issue “could become a problem, not that it is a problem”. The tricky bit in diplomatic negotiations is judging where the “red lines” are.

Is Mr Hu competent to deal with these potential dangers? Remarkably little is known about the 58-year-old heir-apparent, who is expected to take over as Communist Party chief in the autumn and assume China's presidency early next year (although nothing is certain in China's murky succession manoeuvres). He has never been interviewed by a western newspaper. His expertise is said to be hydraulic engineering. However, Mr Jiang would not have sent a dummy to Washington. Mr Hu will have been trusted to challenge the Bush administration's favours to Taiwan without doing it so harshly as to derail the relationship.

It is one Mr Jiang's basic policies, and one he hopes will form part of his legacy, that China can stay stable and grow stronger only if it avoids serious conflict with the United States. The apprentice leader will be aware that Mr Bush could stay in power for another seven years. The chemistry between the two men could set the tone for Chinese-American relations for a fair time.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Philippines

A need for firm action

Apr 25th 2002 | MANILA
From The Economist print edition

Another attack in the south

Get article background

THE first effect of a bomb planted outside a shopping centre in the mainly Christian city of General Santos on April 21st was the killing of at least 15 people and the wounding of dozens more. The second effect was to raise and then dash expectations that the government would take firm and necessary measures in response.

Bomb attacks are not uncommon in the southern Philippines, but often the culprits remain unknown and their motives remain mysterious. In the latest case, there is much mystery. After the attack the police quickly arrested two men said to have been seen planting the bomb on a tricycle outside the shopping centre. The suspects were first said to be members of the Moro Islamic Liberation Front (MILF), a guerrilla group campaigning for independence for the Muslim minority in the south of this predominantly Christian country. The MILF has a truce with the government while it is engaged in peace talks. It denied responsibility. The police then said the suspects were renegade members of the Moro National Liberation Front, another separatist guerrilla group that made peace with the government in 1996. Police investigators also claimed that the suspects had received explosives training in Malaysia. This implied a link with Jema'ah Islamiya, a group supposedly connected to the al-Qaeda network.

The plot thickened when a caller to a local radio station claimed responsibility for the attack on behalf of the Abu Sayyaf, a band of Muslim kidnappers whom the United States regards as international terrorists, because they once had links with Osama bin Laden. The caller suggested that the bomb was a protest against the deployment of hundreds of American troops in the south to help local security forces stamp out the Abu Sayyaf, and who are now searching for its supporters on Basilan island.

AP

Americans advance in Basilan

The police were sceptical about this claim, arrested three more suspects and said further arrests would follow. Other people are simply confused. Armed lawlessness makes the whole of the southern Philippines confusing. Any gang of extortionists or kidnappers with guns and access to explosives can claim to be Muslim freedom fighters one day or al-Qaeda terrorists the next. By giving themselves political or religious labels, they can instil greater fear in their victims.

Such labels also give the security forces an excuse for their failure to stop what may be simply criminal violence. The day after the General Santos bombing, President Gloria Arroyo said she was considering declaring a state of emergency in the area. But she was apparently unwilling to risk a political backlash by those wary of any curtailment of their civil liberties. In the end, she ordered what her officials described as “measures in response” to the emergency situation in General Santos. These included the reinforcement of the security forces there, more checkpoints, possible curfews, and a reward for information. But there will be no suspension of legal rights that an official state of emergency might entail.

Mrs Arroyo also urged Congress to pass an anti-terrorism law. This was scant comfort for many residents of General Santos. Christian vigilante groups began making threatening noises. Peaceful people in the southern Philippines, whether Christian or Muslim, care little about the motives for the violence. They simply want firm action to put an end to it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Japan

The politics of nationalism

Apr 25th 2002 | TOKYO
From The Economist print edition

Koizumi visits Yasukuni

Get article background

AP

No surrender by Koizumi

THIS time, there was no fanfare or advance warning. On April 21st, Junichiro Koizumi, dressed in a morning suit, paid an unexpected visit to Yasukuni shrine, a memorial to Japan's war dead. By going during a spring festival, the prime minister said, he would avoid a trip in August, around the anniversary of Japan's surrender in the second world war. He may thus be able to avoid the drawn-out controversy of last summer, when his campaign promise to visit the shrine at the time of the anniversary prompted appeals not to, both at home and in Asian capitals. But his visit raised some eyebrows nonetheless.

The shrine, which is steeped in nationalist symbolism, holds the remains of more than a dozen people who were executed in the late 1940s after their trials as war criminals. The remains were not placed there until 1978. By mingling the war criminals' remains with those of other war dead, the shrine's authorities presented subsequent leaders with a problem: neglect the soldiers who died in the war, or honour the war's masterminds along with them.

Mr Koizumi, however, is hardly the innocent victim of devious nationalists. Far from being forced to choose, he used the Yasukuni controversy to his advantage during his internal party campaign last year. By saying that he would go there on the August 15th anniversary, he was able to appeal to nationalist supporters, helping him to win the party presidency. In the event, he fudged the issue slightly, by going to the shrine two days early.

By contrast, this week's trip represents something of a concession, to political realities if nothing else. His visit triggered fierce criticism from the opposition, and angered the governments of China and South Korea, countries which have declined to forget Japanese conduct in the war, prompting formal protests from both. Japan is about to co-host the soccer World Cup with South Korea, which made things even more awkward. But by going now, and saying clearly that he would not go again this year, Mr Koizumi may have removed a potential distraction, one that no doubt would have grown as August approached.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

A new magazine

For the modern woman of Kabul

Apr 25th 2002
From The Economist print edition

Not a bikini in sight

THE women of Afghanistan now have their own magazine, backed by *Elle*, a stylish French publication. But the more conservative forces in the country need not worry, at least not yet. The 36-page monthly does not feature the latest bikini collection or tips on liposuction. The magazine, called *Roz* (the Day), is printed in black and white, the best that Afghan technology can provide at the moment. The articles, in Pushtu and Dari—the main Afghan idioms—with some translated into French and English, offer advice on daily life, health, hair and skin care, and parenting. There is some poetry and fiction, and the unavoidable horoscope.

Following the fall of the Taliban, a group of Afghan women led by Lailoma Ahmadi, a former radio journalist, planned the magazine, but had no money. Over the years *Elle* has run many articles on Afghan women. Now it and its parent company, Hachette Filipacchi, have provided Miss Ahmadi and her team with publishing equipment and the money to get things moving. She has a staff of four and some freelance contributors. The first issue of 1,500 copies, published this month, was free. Future ones will cost the equivalent of 20 cents.

The market at present is small. Afghans are poor: 20 cents buys two loaves of bread. Eight Afghan women out of ten cannot read. But, says Miss Ahmadi, at least the two who can now have something written for them.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Australia

The unlucky country

Apr 25th 2002 | SYDNEY
From The Economist print edition

For asylum-seekers

Get article background

CURTIN is one of the most isolated places in Australia, a dot in the red desert facing the Indian Ocean on the north-west coast. It has also become one of the most violent. This former wartime air-force base is now a detention centre surrounded by barbed wire, behind which 330 asylum-seekers, among them 60 children, wait to hear their fate. On April 19th, many of them went on a rampage after reports that the government planned to deport them.

They smashed rooms in the compound with makeshift weapons, and several detainees and security guards were injured. Three days later, the Australian Broadcasting Corporation showed a leaked video of a more dramatic upheaval at Curtin last June, when some asylum-seekers reacted to news that they had been rejected as refugees by hurling themselves against walls. One person was shown covered in blood and two were unconscious. Most were later accepted as refugees. The video shocked many Australians and focused attention once more on the policy of the conservative coalition government, led by John Howard, of locking up asylum-seekers in remote camps, a policy that is receiving growing criticism in Australia and overseas for being overly draconian.

Hunger strikes, riots, attempted suicides and escapes have become almost commonplace at Curtin and another desert camp at Woomera, about 2,000km (1,250 miles) to the south-east. Frustrated at the length of time the Australian authorities are taking to process their refugee applications, leaving some incarcerated for up to two years, many inmates have turned violent and accused the country where they hoped to find freedom of being little different from the ones they had fled. Most of those at Curtin and Woomera are from Afghanistan, Iraq and Iran, and arrived off the northern coast of Australia in boats supplied by people-smugglers in Indonesia.

Mr Howard described the video from Curtin as “not pleasant”, but added, “If people did not seek to come to Australia illegally, they would not be in detention.” He would say that. In November, Mr Howard snatched an election victory from what, a few months earlier, had seemed a looming defeat by getting tough on the issue of Australia's “border protection”. He portrayed boat arrivals as “queue jumpers” and brought in a so-called “Pacific solution” which involved sending them, at great expense, to hastily built camps in Papua New Guinea and Nauru rather than allowing any more to land on Australian shores.

Australia has had a minimal influx of asylum-seekers compared with Europe and elsewhere. In the year to June 2001, just over 4,000 boat people arrived, about half the number the authorities expected; about 5,000 are expected this year. Yet Australia is the only rich country that locks up most of its asylum-seekers for lengthy periods. The policy that won Mr Howard an election with an appeal to a xenophobic streak in Australians has now left his government with problems. The most embarrassing one has come from an inquiry being conducted by the Senate, the upper house of the federal Parliament, indicating that the government fabricated claims days before the November election that asylum-seekers on a boat off the north-west coast had threatened to throw their children overboard unless Australia took them in.

Government ministers released selected pictures from a navy video to support their claims at the time, and Mr Howard himself told voters such people should not be allowed into Australia. The full video released since then, backed up by evidence from navy officers, shows that no such threats were made and that the boat was actually sinking. Meanwhile, there has been strong criticism of conditions in the desert camps from the media, church leaders, human-rights groups and the government's own advisory

body on detainees, especially of the impact of incarceration on 480 children detained.

The government recently announced plans to close Curtin and scale down Woomera; but a new, less isolated, camp will open soon, in South Australia; and one on Christmas Island, off the north-west coast, is being expanded. The government's critics want it to end mandatory detention, to speed up the processing of refugee applications and release most asylum-seekers from the camps on temporary visas. Such calls will go nowhere as long as Mr Howard believes voters support his stand, regardless of its damage to Australia's human-rights record.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Malaysia

Silencing the critics

Apr 25th 2002 | KUALA LUMPUR
From The Economist print edition

More are held indefinitely

Get article background

AP

Anwar, briefly out of solitary confinement

APRIL has been a cruel month for Malaysian advocates of civil liberties. On the 10th, six political activists marked a year of imprisonment under the Internal Security Act (ISA), a repressive relic of colonial rule that allows for indefinite detention without trial. Four days later, Anwar Ibrahim, a former minister and champion of political reform, completed his third year in jail, for offences that his lawyers claim were trumped up by the government. A hunger strike, started by the six and joined by Mr Anwar, collapsed last weekend in confusion. At the same time, the authorities arrested another 14 people under the ISA, bringing the number of detainees under the act to 62. Disturbingly, few Malaysians seem to care.

As recently as a year ago, Malaysian politics revolved around Mr Anwar and the frequent demonstrations in his favour. The six activists, all supporters of Mr Anwar's reform movement, were themselves arrested while organising a rally to mark the second anniversary of his arrest. Many Malaysians questioned a police claim that those arrested were plotting a coup, noting instead that they were important to sustaining Mr Anwar's cause. At any rate, their arrest was one of a series of events that has helped to dampen criticism of the government dramatically.

Deprived of their leaders, the pro-Anwar demonstrations began to decline. Brutal policing, as attested to by Malaysia's independent human-rights watchdog, must have put off some potential protesters. So, too, has the government's ban on political rallies. Malaysia's media, never the most outspoken, has been further cowed over the past year by the takeover of a Chinese-language paper by a group sympathetic to the government, and the sacking of some of the more adventurous journalists at an English-language one. The short-lived hunger strike barely earned a mention in the local papers. Above all, the events of September 11th boosted the government's argument that severe measures such as the ISA were needed to nip extremism in the bud. Most of those now detained under the act are alleged Muslim militants.

Anyway, few of Mr Anwar's sympathisers view his treatment as part of a broader problem of civil liberties, according to Sankara Nair, his lawyer. Instead, they see it as a personal betrayal by Mahathir Mohamad, Malaysia's prime minister and Mr Anwar's one-time mentor. Mr Nair says the government's critics place more emphasis on the need for a change of prime minister than of the law.

Yet it is hard to envisage a political comeback for Mr Anwar. He is held in solitary confinement, supposedly for his security. His health is failing. He wears a brace because of a back problem. He gave up his hunger strike after just one day, complaining of flu. The courts, having rattled through the two cases against him remarkably quickly, have since been slow to settle his appeals. One court has yet to issue its judgment on the charge of corruption; another has yet to set a date for the appeal against his conviction for sodomy. If both sentences are upheld, Mr Anwar faces more than seven more years in prison, even allowing for early release due to good behaviour. His plight used to earn fierce condemnations from foreign governments. But September 11th changed all that, too: next month, for the first time in years, Dr Mahathir is cordially invited to the White House.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Palestinians

After the assault

Apr 25th 2002 | JENIN AND RAMALLAH
From The Economist print edition

AP

The dust settles and Palestinians survey the destruction

Get article background

AS ISRAELI tanks rolled out of three Palestinian cities on April 21st, a bluff Ariel Sharon commended the "great accomplishments" achieved by his army's three-week re-conquest of the West Bank. It was, and is, a necessary exercise to root out terrorists, says the Israeli government, and the greatest care was taken to protect civilian life. Others saw it differently.

In the razed heart of Jenin refugee camp, where the fighting was most bitter, Palestinians were shovelling out their decomposed dead. Elsewhere in the West Bank, 600,000 people stepped gingerly out after weeks of curfew to survey the debris of their cities: what they saw, they are convinced, was the calculated destruction of their lives, property and institutions.

The immediate crisis is humanitarian. A week or so after the army finally allowed medics into Jenin camp, 50 corpses had been retrieved from the rubble, although the Palestinians still say that many more remain buried (though not the "up to 500" that was generally reported at first), mixed with sewage from cracked mains. The danger of epidemic is real. Some 4,000 of the camp's 13,000 refugees are homeless.

Things are not much better elsewhere in the West Bank. UNRWA, the UN agency responsible for the welfare of Palestinian refugees, is distributing emergency rations to 90,000 Palestinians, but is hindered by the Israeli army's sieges. The International Committee of the Red Cross (ICRC) gives warning of severe water, food and medicine shortages, especially acute in Palestinian villages cut off by dirt walls, army checkpoints and trigger-happy soldiers.

The humantarian disaster is compounded by an economy that has plunged from depression to paralysis. The UN's economists estimate that three-quarters of all production in the West Bank has come to a halt, and that three-quarters of the workforce is temporarily or permanently unemployed. Few have cash, and their savings are exhausted.

The humantarian disaster is compounded by an economy that has plunged from depression to paralysis

Palestinians have lived through hardship before, though rarely on this scale. The more sinister thing about the latest Israeli assault, they claim, was its targeting of their heritage. During the army's 17-day reoccupation of Nablus, the city's oldest mosque was gutted, soap factories destroyed and an ancient bathhouse ransacked. In Bethlehem, tanks have levelled to dust the refurbished old market; a Syriac Orthodox church was

bombed; hermitic caves dynamited. “That's not about security. That's about erasing history. Ours,” says a Palestinian academic. Israel, naturally, denies any such policy.

In Ramallah, the temporary capital of the future Palestinian state, the army appeared to target the sinews of such a state. In a pattern so routine it seemed to observers to be policy, soldiers invaded Palestinian Authority (PA) ministries, denuded land registries of maps, raided courts, broke into banks and stole money, and trashed non-governmental offices servicing health, human rights and commerce.

One example: on April 4th, 150 soldiers went into the Ministry of Education. They took the hard drive from every computer and blasted open a safe, robbing it of around $10,000. The discs contain information on 650,000 teachers and students in 155 West Bank schools. Some of the data is irreplaceable, says the education minister, Naim Abu Hommos.

Some Palestinians wonder whether reconstruction is worth the effort. “I think it better if the army stays,” shrugs a leader in Yasser Arafat 's Fatah movement. “It would show the world the reality that what we have here is a military occupation and a people's right to resist it. It would end the illusion that there is any longer an entity called the Palestinian Authority.”

He cites as an example of that illusion the spectacle of Mr Arafat holding military trials of Palestinians within his compound because he is unable, at the point of Israeli guns, to leave its front door. On April 25th this Palestinian court handed out jail terms to four men involved in the killing of an Israeli cabinet minister, Rahavam Zeevi. But Israel still insists that it will not end its siege on Mr Arafat's Ramallah headquarters until the men, plus another wanted for buying arms from Iran, are handed over.

Other, more thoughtful, Palestinians do not yearn for a return to the armed struggle. They fear the lawlessness on their streets shown by masked militiamen, dispensing the roughest of justice to those they accuse of collaborating with Israel during the invasions. In the immediate aftermath of Israel's partial withdrawal, and in the absence of a Palestinian police force, Fatah fighters gruesomely executed four suspected collaborators.

The greater Palestinian demand is for protection. On April 19th, the Palestinian leadership welcomed the decision of the UN Security Council to send a fact-finding mission to Jenin. Israel at first said it had nothing to hide. But on April 23rd, it declared that the mission, which includes Cornelio Sommaruga, a former chief of the ICRC, and Sadako Ogata, a former UN high commissioner for refugees, was not acceptable as it stood. Its departure was delayed to include more military experts.

Palestinians also welcomed the call by Kofi Annan, the UN secretary-general, that a multinational force be sent to the occupied territories. The force he envisages would not merely police a ceasefire and an Israeli withdrawal; it would guarantee unimpeded humanitarian services to the Palestinians, enable economic activity in the occupied territories and rebuild the PA institutions. It would ensure the “rule of law” to Palestinians, he says. But Mr Sharon has always opposed any unfriendly foreign presence in the West Bank, and will no doubt continue to do so.

Meanwhile, in Jenin Palestinians haul furniture by tractor back to homes without walls. A barber, in a pristine white gown, cuts hair in a shop with no mirrors. And on a field awash with poppy and thistle, tents are being pitched for the homeless.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Arabs and Palestine

Angry words, hesitant deeds

Apr 25th 2002 | CAIRO
From The Economist print edition

But will Arab leaders be able to continue to resist their people's feelings?

Get article background

AP

Bahraini children show solidarity

SIXTY Muslim clerics issue a *fatwa* calling on Arab governments to mobilise for war against Israel. Students in Cairo raise placards that read: Bush+Sharon=Axis of Evil. A posh Damascus restaurant kicks out the American consul. Arabs are seething at what Israel has done to the Palestinians, and also at what they see as American complicity. The question is, what can they do to express their rage, aside from hurling insults?

The answer is, quite a lot, if they played hardball. The world's 280m Arabs, spread across 22 countries, have a fair degree of diplomatic, economic and military clout. What they have always lacked is the cohesion and leadership to overcome handicaps, such as their dependence on American aid and arms. Yet with passions aroused to a uniformly feverish pitch, even clumsy, scattershot efforts to influence the world may have some effect.

For one thing, the so-called Arab street, famously impotent in the face of dictatorial regimes, is making its voice heard. In the past four weeks, ordinary citizens have stumped up $300m to help the Palestinians. Non-stop demonstrations in countries such as Jordan and Egypt have shaken governments. Although they have not yet stirred leaders into much action, they have alerted America to the political precariousness of its closest Arab allies. George Bush may hear some of these fears expressed when Saudi Arabia's Prince Abdullah visits him this week at his Texas ranch.

Hosni Mubarak's downgrading of Egyptian ties with Israel, his refusal last week to meet Colin Powell, the American secretary of state, and his fiery speech this week about Israeli “state terrorism”, were largely exercises in local damage control. But they also signalled that further unrest could provoke a downward spiral in Egypt's relations, not just with Israel but also with America—and this from a country that, among other things, controls the Suez canal and the east-west air routes that are vital to America's armed forces.

Even before Israel's new invasion of the West Bank, Arabs had shown their displeasure with American policy by saying they would not back any American attack on Iraq. America's dozen bases in the Gulf, with their 30,000 troops, are the obvious launchpad for any such action. The bases exist because the oil monarchies are too weak to defend themselves. Yet this does not mean that the Gulf's leaders can resist indefinitely mounting pressure from the public to get rid of them. This week, a group of 120 prominent Saudis petitioned their government to “make the American administration feel that its huge interests in the Arab region are threatened”. That is about as direct a call to close the bases as is possible in the kingdom.

The Arabs' strongest cards, however, are economic. Most obviously, they supply about a quarter of the world's oil. As ever a skilled propagandist, Saddam Hussein has taken the lead by halting Iraq's oil exports for 30 days, and calling for others to cut their output by half. But none of his neighbours is so willing to sacrifice their own people's well-being to score political points for Palestine. Past experience has shown that the oil weapon is two-edged. Using it causes global upheaval that hurts poor nations most. It also lowers the cost threshold for developing competing oilfields elsewhere, as happened with the North Sea and Alaska in the 1970s.

A more practical tack would be to favour foreign oil firms over American ones, for example in the current negotiations over a $25 billion project to develop Saudi Arabia's natural-gas resources. Other oil exporters might also consider Iraq's idea of refusing payment for oil in dollars, and insisting instead on euros, as one Gulf newspaper suggested this week.

Although there have been many calls to reinstate the now defunct Arab boycott of Israel, and some to add American firms to the ban, another option has received some attention. Arab investors hold over $1 trillion in overseas assets. A carefully targeted programme to disinvest in companies with strong Israeli connections could be quite effective, as it was against South Africa's apartheid regime—particularly if western universities, trade unions and pension funds are invited to join in.

The more likely scenario, however, is that the Arabs will continue to voice their discontent in the old, disjointed ways. Governments will appease their people with angry language, and make a show of resistance to America's bidding by refusing, for instance, to condemn suicide bombings. Most of their people will stay angry until compassion fatigue sets in. A small minority, however, seem to be plotting to take things into their own hands. This week alone, the Egyptian police intercepted six youths, from different parts of the country, all trying to sneak into Gaza and volunteer for martyrdom. The more Arabs are convinced that self-sacrifice is the only way to fight, the more would-be martyrs there are likely to be.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Jews in the Arab world

Memories, mostly

Apr 25th 2002
From The Economist print edition

The few who remain face new uneasiness, perhaps danger

AP

May the good times return

TIME was when the 1,000 orthodox Jews living on the Tunisian island of Djerba believed the greatest threat to their way of life was the European gentiles bronzing on the beaches behind their village. But this month, a Tunisian lorry-driver drove home the mounting danger by exploding his truck of natural gas outside their prized Ghriba synagogue, killing 15 people, 11 of them German tourists. The German police have unearthed a tentative link between the driver and al-Qaeda.

Earlier Arab-Israeli wars had already pushed out all but 6,000 of the 1m Jews who once inhabited the Arab world. Jews predate Muslims in the region by some thousand years, but today the only Arab states with any noticeable Jewish population are Tunisia and Morocco. A few dozen more live on in the Arabian peninsula, Syria and Iraq, whose Gulf war wounded included a Jewish army officer.

Events in Palestine make their lives difficult. Fired by solidarity for the Palestinian *intifada*, a judge in Egypt last September banned the annual Jewish pilgrimage to the shrine of a holy man, Abu Hasira, near Alexandria, on the grounds it endangered public morality. Yemeni preachers demand that the country's handful of Jews be stripped of their nationality.

And even in Morocco, where King Mohammed calls himself Commander of all the Faithful, not just Muslims, a Jew was stabbed in the centre of Casablanca last week, and since then some Moroccans have preferred not to wear their skullcaps. Rioting Islamist demonstrators in the city brayed for the sacking of André Azoulay, the last Jewish adviser to an Arab leader. “Jews sympathise with Israel: they cannot be trusted with the affairs of a Muslim state,” said Sheikh Zimzami, spiritual mentor of Morocco's legal Islamist party.

The first part of that claim seems to be largely true, though there is nothing sinister about it. For instance, Djerba's Jews speak better Hebrew than Arabic, and tend to listen to Israel's radio rather than Tunisia's. Behind the walls of the *hara*, or Jewish quarter, they celebrate Israeli independence day, cheer for Hapoel Tel Aviv football team, and in times of trouble recite Sabbath prayers for the Israeli army.

But for most of the past millennium, interfaith harmony in the Arab world was unparalleled. Had Arab and Zionist leaders not colluded to remove the Arab world's Jews, Casablanca's population would today be as Jewish as New York's. Despite the recent trouble, Casablancan Jews still say that they feel safer there than in Paris or Tel Aviv; the city's governor sends his child to a Jewish school. Before he died, King Hassan invited rabbis from Israel to bless him, to the chagrin of the few Jews who remain active in the politburos of North Africa's left-wing opposition.

In that bygone age of a peace process, when Israel opened missions in Rabat and Tunis, some exiles even dreamt of going home. Morocco gave Israelis born to Moroccan parents a second right of return and the option of a Moroccan passport. A Bahraini Jew was appointed to parliament. Yemeni Jews flew Royal Jordanian to visit relatives in Tel Aviv. A Tunisian Jew went home to open a thriving kosher restaurant in La Goulette, a posh Tunis suburb.

But the more prolonged the current crisis, the more remote and vulnerable this relaxation seems. Having packed their young off to Canada, Morocco's ageing community is now building museums and restoring disused synagogues as testimony to what once was, when they themselves are no more.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Iranian energy

Mixing oil and politics

Apr 25th 2002 | TEHRAN
From The Economist print edition

Does Iran want foreign investment in its oil industry, or not?

WITH Iran targeted as one of the evil three, George Bush might like to implement the American law that lets him punish non-American companies which build up Iran's energy sector. But he could do a lot worse than let events take their course. Thanks to politics, and perhaps corruption, the industry on which Iran depends is in a bad way without his help.

Last summer, Bijan Zanganeh, the oil minister appointed by President Muhammad Khatami to increase Iran's lagging capacity, was able to shrug off claims that he had encouraged old pals to set up nominally independent oil companies, then tossed lucrative contracts their way. A foreign deal he signed with Italy's Eni, to develop part of the Darkhovin oilfield, brought the value of such deals close to $15 billion. The terms of the Darkhovin deal, which allowed Italian engineers an unprecedented role in monitoring what went on, suggested that Iran might have started to abandon its traditional resentment of foreign involvement in its oil. Mr Zanganeh's goal, to increase capacity by 20% to 5m barrels a day, looked achievable.

A year on, the minister has lost his zip, and Iran's export capacity, hit both by rising domestic demand and a high annual depletion rate, has gone down. Nationalists have pecked at the minister, arguing that his “buy-backs”, a type of deal he devised to circumvent the bar on granting mineral concessions to outsiders, are too generous to foreign firms. And corruption allegations have led to court summonses.

In the past three months, board members both of the National Iranian Oil Company (NIOC), which answers to Mr Zanganeh, and of Petro Pars, the most controversial of the new companies, have been charged in connection with irregularities in the allocation of contracts. The minister was questioned, though he denies being charged. At the weekend, Mr Khatami persuaded the head of the judiciary to put the Petro Pars case into cold storage. But the detente, if there is one, is fragile.

Politics is the reason. Behzad Nabavi, Petro Pars's former head, whom the courts summoned twice in the past fortnight, is an influential reformist deputy whom many colleagues would like to see succeed Mr Khatami as president. The judiciary, which says it is only doing the anti-corruption bidding of Iran's conservative-minded supreme leader, Ayatollah Ali Khamenei, is temperamentally antipathetic both to buy-backs and Mr Zanganeh. But Mr Bush's unfriendly speech continues to reverberate around Tehran, and Mr Khatami, in his defence of Mr Nabavi and Petro Pars, will have almost certainly invoked the need for a show of unity.

The consequence of these shenanigans is a growing reluctance on the part of oil officials to take decisions. They are afraid, says a foreign executive, “of appearing corrupt, or incompetent, or both.” At least two foreign companies are said to have pulled out of development projects: the terms on offer got less attractive as the political temperature rose. The award of a commercial tender for Bangestan, which could turn out to be one of Iran's biggest fields, has been delayed. There is no sign, either, of eagerly awaited tenders for the production of liquid natural gas for export. Perhaps most embarrassing of all, the NIOC's dispute with Total, a French oil giant, over alleged overspending may end up in the courts.

For all their frustration, the big foreign companies are unlikely to leave Iran; the potential prizes are too great and, with American companies sanction-bound, the field is open. Smaller companies, however, tired of allocating manpower and capital to fruitless surveys and cost analyses, are having a rethink. At this week's oil and gas show, Mr Zanganeh alarmed foreigners when he seemed to suggest that, in future, more than half the value of each project would be allocated to Iranian companies. They thought of Petro Pars: contracted to develop six phases of the South Pars gas and oil field, the Iranian company is behind schedule in one phase, and reportedly having trouble raising financial backing for three of the

others.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Ghana as economic model

Good, but not at election time

Apr 25th 2002 | ACCRA
From The Economist print edition

Does laisser-faire hurt the poor? Ghana's example fuels both views

Get article background

A WATCHMAN in Accra, arriving late for work, blamed the IMF's programme for heavily indebted poor countries. The story is told by Ghana's president, John Kufuor, to illustrate how quick Ghanaians are to blame all ills on those wicked foreigners who have forced Africans to adopt laisser-faire policies. Since the World Bank and IMF touted it as a "model" reformer in the 1980s, its every failure has been paraded, by those who dislike those policies, as proof that markets make the poor poorer.

They point out, correctly, that after two decades of reform, Ghana's economy still crashes periodically, and half its rural population still has to drink water with filth in it. But they lose sight of how bad things were before Ghana attempted, haltingly, to reform. The military regimes of the 1970s and early 1980s were violent, crooked and fond of enterprise-throttling controls. Cocoa farmers, for example, were obliged to sell their crop to the government for as little as a twentieth of the world price, and the penalty for trying to obtain a fairer price by smuggling cocoa out of the country was death. By the early 1980s, Ghana was in such a mess that one Ghanaian in ten chose to live in Nigeria instead.

Reform began in 1983, under President Jerry Rawlings, though he too was a military man who had come to power by a coup. He lifted price controls and imposed a measure of fiscal sanity. It worked. Between 1983 and 2001, average incomes grew by about 2% a year. During the 1990s, the proportion of Ghanaians living in poverty fell from 53% to 43%.

But the gains remain fragile. Partly, this is because Ghana produces significant quantities of only two things that foreigners want to buy: gold and cocoa. And in part it is because since Ghana started holding genuine elections, no government has resisted the temptation to bust the budget to buy votes. Before the 1992 election, civil servants got an 80% pay rise. Before the 1996 one, the government set afoot a huge public-works programme, padding contracts to pay off important interest groups. In 2000, the ruling party simply handed out fistfuls of cash to voters—at a time when the economy was in deep trouble.

In 1999-2000, cocoa and gold prices tumbled, while the price of oil, which Ghana has to import, soared. Because an election was near, the government, which subsidises fuel, did not pass the oil price increase on to consumers. To finance its generosity, it borrowed massively. The result was inflation of up to 40% and a collapse of the cedi, the local currency. Though GDP did well enough in volume terms, in dollar terms it crashed in 2000 by a third.

This is often cited as proof that a country can follow the IMF's free-market prescriptions and still foul up. In fact, Ghana has done well when it swallowed the IMF's harsh medicine, but badly when—as often—it spat it out. In 1999, the budget deficit reached 10% of GDP—almost as bad as in Zimbabwe. In 2000, Mr Rawlings's government exceeded its borrowing targets by a factor of three.

Despite that last pre-electoral splurge, his chosen successor lost to Mr Kufuor, who seems to understand the link between populism and penury. He has promised to "make the hard choices to live within our means", and so far he has kept his word. He also understands that Ghana needs to produce things other than gold and cocoa, and has promised to promote a "golden age of business" in Ghana.

The days of tuna and roses?

He will have his work cut out. “Non-traditional” exports such as tuna, roses and pineapples trebled in the 1990s, but still make up only a fifth of the total. An American insurance firm recently set up an office in Accra, where Ghanaians process claims and whizz them back to Kentucky via satellite. But despite Ghana's cheap and well-educated workforce, its stability, and its business-friendly president, there has been no stampede of investors.

Mr Kufuor says he wants to encourage entrepreneurship. But most Ghanaians, following the lead of their revered first president, Kwame Nkrumah, expect the government to do everything for them. Even now, government jobs probably account for most formal employment—and, by one estimate, half are superfluous. Many are obviously so: there is still a Prices and Incomes Board, long after price controls were scrapped. The finance minister, Yaw Osafo-Maafo, says he wants to slim the bureaucracy, but not until there arejobs for the redundant to go to.

If anti-globalisation protesters are looking for an example of laisser-faire gone mad, Ghana is not it. Under Mr Kufuor, it seems to be ambling in the right direction. And if he can hold steady through the next election in 2004, Ghana might start to look like a real model.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Europe's far right

Toxic but containable

Apr 25th 2002
From The Economist print edition

The success of Jean-Marie Le Pen does not mean that his counterparts are more likely to win power

Get article background

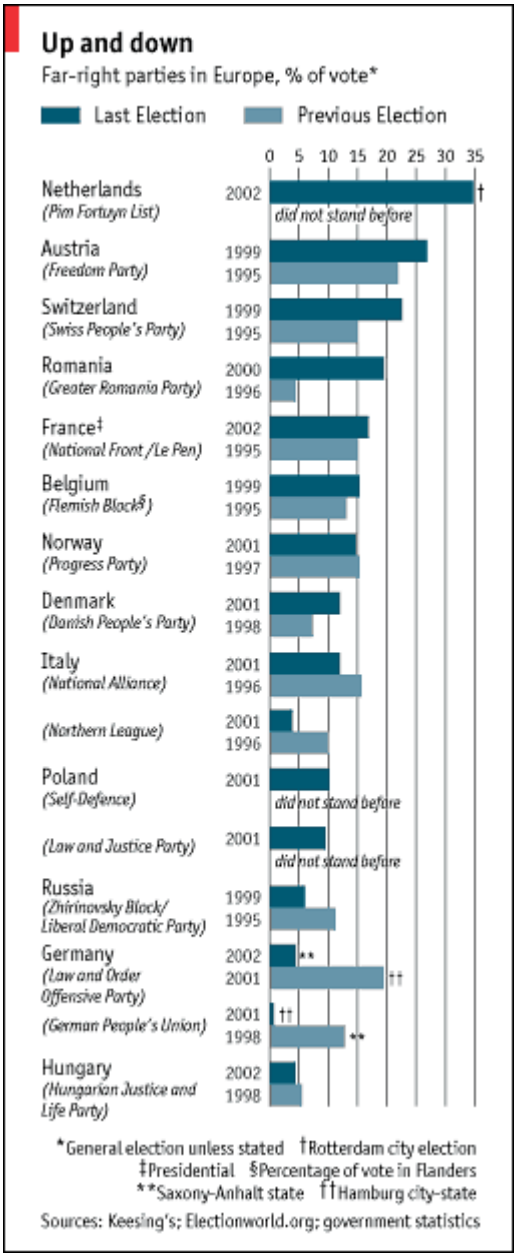
SO THE ghosts of Hitler and Mussolini and assorted nasties carrying an odour of the 1930s are said to be stalking the continent. In two EU countries, Austria and Italy, xenophobic parties are in power as partners in coalition. In Denmark a minority government of the right depends on a pact with an anti-immigrant party of the far right. In Switzerland and Norway, the maverick far right has done well in national elections and has occasionally, in the past few years, topped the opinion polls. In cities where immigrants are numerous, such as Rotterdam (the Netherlands's biggest) and Antwerp (the largest port in the Flemish part of Belgium), far-right candidates have, in the past few years, won local elections and, in the German city-state of Hamburg, have muscled their way into a ruling coalition.

In Central and Eastern Europe, too, chauvinists of various degrees of viciousness, often tinged with anti-Semitism and hostility to Gypsies and other minorities, have sometimes scored heavily. In Turkey, a far-right party is in the ruling coalition. Now, so the theory runs, all those on the extreme right will be cockahoop—and poised to emulate and even outgun Jean-Marie Le Pen, the leader of France's National Front who last weekend came second in the presidential election's first round, knocking out the entire gamut of France's left. The Nazis are coming back.

Not so fast. For sure, Mr Le Pen's vote of nearly 17% shows that his anti-immigrant, law-and-order message resonates widely. A lot of politicians elsewhere on the continent strike popular chords when they echo his virulence. But the notion that the far right is electorally surging, heading inexorably towards power in many lands, is not borne out by results (see table). True, in some places it is up; in others, down; in many its vote, over the past decade, has see-sawed. In Germany, despite occasional outbursts in bleak cities and states, it has never taken off nationally; nor has it in Britain. In Spain, Portugal and Greece it hardly exists. In Nordic countries it is still generally weak.

Even in Central and Eastern Europe, where Poles, Slovaks, Hungarians and Romanians have occasionally egged on the more rabid sort of nationalists, no party of the far right has become a solid or consistently democracy-threatening fixture. Russia's neo-fascist Vladimir Zhirinovsky got most party-list votes in a general

election in 1993, but has fizzled.



Europe's most successful far-right-winger to date has been Austria's Jörg Haider and his Freedom Party. Seven years ago he won 22% in a general election. In 1999 he came second with 27%. With his protester's potency reduced by his party's inclusion in government, pollsters put its ratings back down to about 22% again.

In Italy, the National Alliance, descendants of Mussolini's fascists, took a quarter fewer votes in last year's general election (before joining a ruling coalition) than in the previous one, while the vote for the now more populist and immigrant-bashing Northern League, also now in government, shrank from 10% to 4%. In other words, the popularity of those two parties dipped, just as they took a share of power.

In Denmark, Pia Kjaersgaard won 12% in last year's election and enough seats to be able to prop up the current minority government of the right, but the popularity of her Danish People's Party has already slipped a bit in the opinion polls.

In any event, defining the far right in distinction to the plain right (or centre-right, as many Europeans prefer it to be labelled, precisely because for many of them even plain right carries a whiff of authoritarianism from the dictators' era) is not always easy. Two of the standard criteria are contempt for the norms of parliamentary democracy in favour of violence on the streets or straightforward dictatorship, and propagating hatred for, and even stirring up violence against, immigrants, minority groups and citizens of a different colour. By that yardstick, few of those on our list are anti-democracy but most are indeed hostile to immigrants.

But even on that score, there are wide differences. Mr Le Pen, for instance, has often excoriated immigrants in vile language. Others dubbed far-right have argued, quite legitimately, for tougher curbs on immigration without resorting to language intended to stir up hatred. For instance, a maverick Dutchman, Pim Fortuyn, who may get a fifth of the votes in next month's general election and won a recent local poll in Rotterdam, argues fiercely that immigrants should integrate more wholeheartedly with the host nation. That does not necessarily put him into the same basket as Mr Le Pen, whom he roundly condemns. Nor, for that matter, does Mr Fortuyn's avowed homosexuality sit nicely with Mr Le Pen's fervent homophobia.

Moreover, some deemed to be on the far right, such as Norway's Carl I. Hagen and Switzerland's Christoph Blocher, are more libertarian than racist. They are for low taxes, against state interference and for less generous welfare, as are many on the supposedly respectable right. At the same time they do speak bluntly about immigration. But they resent any suggestion that they smell of neo-Nazi proclivities.

Further, many parties reckoned to be on the far right attract voters not because they are racist or violent but because voters feel that the mainstream parties are out of touch or even corrupt. That has certainly been the case in Austria, where for almost half a century two parties, on the centre-right and centre-left, ran a patronage system known as *Proporz*, whereby a vast array of public-sector jobs, from head teachers to cooks, were dished out to the party faithful on either side. Mr Haider's success is partly but by no means wholly due to tapping into racial prejudice.

Besides, parties can change their ways—and it is often hard to draw the line that divides a fascist past from a populist-but-democratic present. For instance, Italy's cannily revamped post-fascist, Gianfranco Fini, is now generally considered, even by the post-Communist opposition, to be a respectable democrat, while his Northern League counterpart, Umberto Bossi, is more widely condemned for hateful bombast. Again, no one questions the impeccably democratic credentials of Jose Maria Aznar, Spain's centre-right prime minister, who sees Britain's Labour leader, Tony Blair, as his soulmate in the EU, though the embryo of Mr Aznar's party was created by politicians who served the dictator, General Franco.

(Rightwingers note that various of today's Communist parties, including the French and Italian ones, once worshipped Stalin but none is considered an international pariah today.)

For many immigrants, it is scant comfort that parties whose words were once racist have toned them down as the price of inclusion in coalition governments today. They worry that malice is still there, all the more able to influence legislation that could make immigrants' lives harder. So far the governments that have embraced the far right do not seem to have done its legislative bidding, though Denmark's has made immigration harder and welfare less readily available to newcomers. But the understandable fear, especially under electoral systems that favour coalitions, is that racist parties can get their feet in the legislative door.

EPA

Could Haider ever become respectable?

Indeed, many mainstream European parties are gradually sounding tougher about how immigrants, especially illegal ones, should be treated. Even Britain's Labour home secretary, for instance (see article), has suggested that newcomers should pass some minimal integration test before becoming citizens. For sure, there is no easy panacea for solving the massive, continent-wide problem of how to embrace some 15m people who may have entered the EU in the past decade. Mr Le Pen's ideas—repatriation, for one—are obnoxious. But there is no reason to presume that his ilk, elsewhere in Europe, are any likelier now to hold sway than before.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Hungary's election

Orban loses, but only just

Apr 25th 2002 | BUDAPEST
From The Economist print edition

An appeal to nationalism nearly saved the outgoing government

MTI

Medgyessy: a Socialist winner

IT LOST, but, even in losing, Fidesz, the conservative party of Hungary's prime minister, Viktor Orban, proved that in Central Europe too nationalist populism pays.

Before the first round of the elections, on April 7th, the then opposition Socialists said polls were understating their support. Albeit narrowly, a surprise success proved them right: they got more votes than Fidesz, and won more of those seats decided in that round. Before the second one, on April 21st, Fidesz in turn insisted it could bring out enough extra voters to turn the overall result around. Since turnout in the first round had been a record 71%, and details of the figures looked unfavourable, that sounded even more unlikely. Yet turnout on the 21st was 73.5%, and Fidesz managed to end with 189 seats, only five short of a majority in the 386-seat parliament.

How was it done? In the first round, the voters seemed to have rejected extremism. The Socialists, despite their unpleasant Communist heritage, are now quite like modern European social democrats. Fidesz is to the right of most centre-right parties. And the radical nationalist Hungarian Justice and Life Party did not reach the 5% needed to get any seats at all. So did Fidesz, between the rounds, aim for the centre?

No, it became more populist and nationalistic. It held big, flag-waving rallies—one attracted several hundred thousand people—and told them that the free-market-minded Socialists would hand Hungary over to big business and (this for the farmers) let foreigners buy their land.

The result revealed a divided country. The well-off west—well-off, ironically, thanks to foreign investment—favoured Fidesz. The poorer and less populous east mainly voted Socialist. Budapest, home to a fifth of the population, gave Fidesz only four of the city's 32 individual constituencies, and those by narrow margins.

Peter Medgyessy, the Socialists' prime-ministerial candidate, a former finance minister with experience as an economist and banker, will depend on the support of the liberal Free Democrats, the only other party to have passed the 5% threshold. The two parties co-operated between the first round and the second, to maximise their seats, and on April 22nd began talks on a coalition, as in 1994-98.

Even before the second round, the two parties were talking about healing the nation's divisions. They may manage a bit of that in parliament. Fidesz's electoral list included a second party, the Hungarian Democratic Forum. This latter, more like a typical Christian Democrat party, had shared in power, but in opposition its now 24 members may break away and be readier to ease the new government's path.

Even so, Hungary looks set for four years of a government with a majority of only eight. And Fidesz will harry Mr Medgyessy—especially if, as some Socialists have promised, the new government investigates corruption under the old one.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

German politics

Schröder's men reel, Stoiber limps

Apr 25th 2002 | BERLIN
From The Economist print edition

Crushed in one state, the Social Democrats could yet win the nation

Get article background

Reuters

Schröder: a Social Democrat in trouble

WERE those state elections in Saxony-Anhalt a dry run for September's national election? Ridiculous, both Chancellor Gerhard Schröder and Edmund Stoiber, his centre-right challenger for the chancellorship, agreed before the poll on April 21st: the eastern state, Germany's poorest, had far too many particularities to be representative of the country. But when the widely expected rout of the state's ruling Social Democrats proved to be even worse, total collapse, Mr Stoiber changed his tune: an “immense” boost for his flagging campaign, he declared. You'd think so; you may yet be proved wrong.

Saxony-Anhalt ranks last among Germany's 16 constituent states by almost every economic indicator: the worst unemployment (21%), the biggest per capita public debt, the highest bankruptcy rate, you name it. Yet the Social Democrats until the last moment had hoped for enough votes to make possible a coalition with the ex-communist Democratic Socialists. Instead, their share of the vote plummeted by 16 points to 20%, putting them behind even the ex-communists, while the Christian Democrats jumped 15 points to 37%. It was the biggest swing between the two main parties in any election since 1945.

The Christian Democrats now look set to form a coalition government in the state with the liberal Free Democrats, whose share of the vote tripled to 13%. If so, that would also give the Christian Democrats an absolute majority in the Bundesrat, Germany's upper house, where the states are represented, for the first time in more than a decade.

There was more good news for Mr Stoiber, and arguably for all of Germany: the poor showing of the new Law and Order Offensive party, led by Ronald Schill, an ex-judge who shot to prominence last autumn after scooping up nearly 20% of the vote in Hamburg's state elections. Now interior minister there, he had announced his intention to go national. The far-right German People's Union had taken 13% in Saxony-Anhalt four years ago, a far-right record in any post-war German election. It was not competing this time, and Mr Schill hoped that his (slightly milder) mix of law-and-order with xenophobia would do even better. In the event, his party took less than the 5% needed to win any seats at all, and he has now decided not to field candidates in the national election.

The rout in Saxony-Anhalt came at a time when little else is going right for Mr Schröder. There is scant sign of the promised economic upturn. It may be on the way, but it could yet be blown off course by a worsening of the Middle East crisis or by the threatened strike by IG Metall, the powerful electrical, engineering and metal-workers' union. Pay talks collapsed last week; the union had lowered its 6.5% claim to 4%, but the employers would not go above 3.3% over 15 months. Both sides have rejected arbitration, and the union's 2.7m members are now balloting on an indefinite strike from May 6th.

Even if all goes well, few economists expect more than 1% growth this year—better than last year's 0.6%, but still not enough to create new jobs. Seasonally adjusted unemployment is near 4m and expected to go on rising. Bankruptcies, running at record levels since the start of last year, have engulfed such household names as the Kirch Media empire, Holzmann, one of the biggest construction companies, and Fairchild-Dornier, an aircraft maker.

Small wonder that the Social Democrats are trailing in the polls. Yet Mr Schröder himself remains surprisingly popular—far more so, indeed, than Mr Stoiber who, after a punchy start, seems to be flagging. In polls asking which politician voters would like to see play a more important role, Mr Stoiber now comes seventh, behind even Angela Merkel, the Christian Democratic leader and his former rival as the centre-right's candidate for the chancellorship. In his home state, Bavaria, Mr Stoiber, its premier, is hard-hitting and self-confident. On the national campaign trail, he suddenly seems indecisive, edgy, lacking in convictions and new ideas. In his effort to shed his right-wing image and woo the centre, he often sounds bland, even self-contradictory. Both Kirch and Fairchild-Dornier are based in Bavaria, and both have had hand-outs from Mr Stoiber's Christian Social Union government there. Their collapse has hurt his reputation for economic management. Some conservative leaders have begun to suspect privately that they should have chosen Mrs Merkel after all.

Mr Stoiber's campaign managers now hope that the publication of the centre-right manifesto next week will give their man a sharper image. Certainly it cannot be flabbier or less persuasive than the “more of the same” Social Democrat one that was put out this week.

These weaknesses, of his party's present performance and its promises for the future alike, no doubt explain why, with few other cards in his hand, Mr Schröder is now more determined than ever to turn the campaign into a personal showdown. The question voters would have to ask themselves, he declared this week, was simple: “Do you want this chancellor or Stoiber?” And ideas for radical reform? On their current showing, both sides seem to think those can wait.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

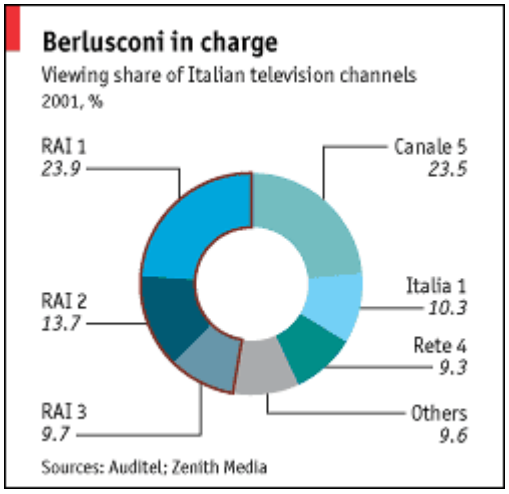
Italy's government and television

The prime minister objects

Apr 25th 2002 | ROME
From The Economist print edition

He says some broadcasters have abused their position. They say he has

Get article background



IT'S official. The prime minister of Italy, Silvio Berlusconi, cannot keep his mouth shut. On April 18th, he was in Sofia. Answering a question by a Bulgarian reporter, he launched into a scathing attack on two Italian television journalists and a comedian (absent, all three). He accused them of “criminal use” of public television during last year's general election campaign, which ended in his victory. “I've nothing against them,” said Mr Berlusconi, “If they change... But they won't.”

One of the criminals is Enzo Biagi, at 81 the dean of Italian media, with long experience in television. His views are centre-left. Another is Michele Santoro, a rabble-rousing anchorman, further to the left. The felonious comedian is Daniele Luttazzi, who last year invited onto his show the author of a book that accused Mr Berlusconi of colluding with the Mafia.

Days before Mr Berlusconi's outburst, the board of RAI, Italy's public-television service, which itself is appointed by parliament, where Mr Berlusconi enjoys a solid majority, had named the new bosses of the three networks (RAI1, RAI2, RAI3) and the editors of its three news services. After fierce infighting within the ruling coalition, the appointments were divided along political lines. RAI1 went to Forza Italia, the prime minister's party; RAI2 was split between the National Alliance and the Northern League, his two main allies. Only the smaller RAI3 was left to the opposition.

As it happens, the prime minister's family owns virtually all of Italy's private-sector television: Canale 5, Italia 1, Rete 4. One small outfit, La 7, belongs to the Pirelli-Telecom group. Many Italians, and not only on the left, think this unhealthy. President Carlo Azeglio Ciampi, who seems ever more embarrassed by this state of affairs, but powerless to alter it, described the independence of television news as “a crucial element in a modern democracy.”

Mr Berlusconi points out that the coverage of his main news bulletin, on Canale 5, has been fairly objective (as it has, though the station can hardly be expected to investigate the prime minister's own financial dealings, for example). He also admits that other of his own news bulletins (Rete 4) are more like fan clubs, and proud to be so. The real problem is public television. And here is where Mr Berlusconi pretends not to see.

As he says, RAI, ever since its post-war rebirth, has been part of Italy's unofficial spoils system. Whoever runs the country, runs RAI. But Mr Berlusconi conveniently chooses to forget that he is not just any prime minister; none of his predecessors also ran the other half of national television, the private one.

Yet the fault is not only his. The left was in power from 1996 until last year. It did nothing to change RAI's position. It could have privatised parts, as the voters asked in a referendum, or given the top jobs to people so independent as to create a hard-to-ignore precedent. It did neither. Some of the left's appointees were good, others less so. But all were political appointments.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Poland's government and the media

No love lost

Apr 25th 2002 | WARSAW
From The Economist print edition

Is the government trying to curb the press? Two newspapers think so

IS POLAND'S ex-communist government trying to limit the freedom of the press? The two top newspapers think so. *Gazeta Wyborcza* believes a proposed new media law is designed to damage it. Its rival, *Rzeczpospolita*, says government bullying is threatening its own independence. Both suspect the prime minister, Leszek Miller, of reverting to type; he now tries to model himself on Britain's Tony Blair, but in communist days he was a member of the party's politburo.

Take your pick
Polish daily newspapers

Title	Political leaning	Readership % [No.]*
Gazeta Wyborcza	Independent (centrist)	18 [5.4m]
Super Express	Busty blondes (sex)	14 [4.2m]
Rzeczpospolita	Independent (centrist)	5 [1.5m]
Trybuna	Social Democrat (left)	1 [0.3m]
Zycie	Platforma (centre-right)	1 [0.3m]
Nasz Dziennik	League of Polish Families (far right)	na

*Adult Poles reading the paper at least once a week
Sources: Polskie Badania Czytelnictwa; *The Economist*

Gazeta Wyborcza is the largest and most profitable newspaper in Central Europe. It has a soft spot for the centre-right, but insists on a healthy editorial independence. No government, it boasts, is safe from its probing. Just as well: a fifth of Poles read it. It is upset at a clause in the proposed media law that would limit newspapers from buying into television. That would sink the paper's hopes of buying a stake in Polsat, a private television station. The government says it has nothing against the paper but doesn't want to see any monopolies developing in the media. “Of course Miller should know how evil a monopoly can be,” is the acid comment of the paper's editor, Adam Michnik, a leading dissident in communist times.

Laws limiting cross-ownership of newspapers and television are no Polish invention. But Mr Michnik reckons Mr Miller has confused monopoly with pluralism: *Gazeta Wyborcza* would be just one of several dailies buying into one of several television stations. The government, says Mr Michnik, wants to make his newspaper a hostage of the state, “cowardly, toothless, and servile. Authoritarian states like such papers, but Polish democracy does not need one.”

Rzeczpospolita's situation is more worrying. It has come a long way since 1982,when it was founded by communists to put a different spin on martial law. It has developed the knack of knocking down politicians with minutely investigated exposés. It is 51%-owned by Orkla, a Norwegian company, with the rest, curiously, still by the state. But relations between the paper and the authorities have recently got a lot worse. Tax inspectors have hounded *Rzeczpospolita*'s managers. Three of them, including a Swedish citizen, have had their passports confiscated, an action usually reserved for big-time criminals.

The interest of the finance police may be more political than fiscal. Poland has only one left-leaning national daily, the ex-communists' own little-read mouthpiece, *Trybuna*. If life can be made hard for the Norwegians, the theory goes, they may sell their share of *Rzeczpospolita*, or part of it, to someone more friendly to Mr Miller. That would let him pack its editorial board, as he has done with public television, which now visibly tilts in the government's favour.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Charlemagne

Patriarch Alexy, a powerful Russian

Apr 25th 2002
From The Economist print edition

Will the president tell Russia's top churchman to be nicer to other churches?

A BIG institution, shaped by the Soviet Union, uses cosy ties with the state to win dubious privileges that help it keep a comfortable near-monopoly. There is an unsavoury whiff, particularly near the top. President Vladimir Putin disapproves, but does little. The description fits much of today's Russia. But this time it is not uncompetitive industries or bureaucratic fiefs that are in the headlines, but another creaky and mismanaged outfit: the Russian Orthodox church, and its head, Patriarch Alexy.

According to Russia's constitution, church and state are separate. Not so in practice. A law on religion favours the Orthodox church and handicaps its competitors. Interpretation is even harsher, with the bureaucracy and the Orthodox hierarchy often working hand in glove to do down the newcomers. Other denominations, respectable and wacky alike, find Russia a hard place to work. The Salvation Army, for example, was hassled for years on the ground that it was a “paramilitary organisation”.

The latest fracas concerns the Roman Catholic church—no better than extremist Islam, to some Orthodox cheerleaders. This month two top foreign Catholics, both of whom have lived in Russia for years, have had their visas cancelled: an Italian priest and theologian, Stefano Caprio, and the bishop of Irkutsk, Jerzy Mazur, a Pole. Roman Catholic parishes in the provinces have faced unprecedented bureaucratic harassment, such as refusal of building permits for churches. Catholic bishops complain of an “organised campaign” against their church. In the latest incident, on April 22nd, a police patrol in Moscow crumpled and threw away the passport of a visiting Polish monk when they learnt he was a Catholic. All this at a time when relations between the Moscow patriarchate and the Vatican are icy.

The patriarchate's concern about competition is understandable. What looks like a strong franchise is proving very wobbly in practice. The church has lots of money, from commercial ventures as well as hard-pressed worshippers, and has built many churches, but finds it hard to fill them. Some 60% of Russians say they support it, but only 6% claim to attend its services even once a month. The main reason is the lasting damage done by 70 years of persecution and state-sponsored atheism. Most Russians care little for religion. Orthodox priests' training often leaves much to be desired; some are saintly, some lazy and corrupt. Many senior ones collaborated with the KGB.

Only 6% of Orthodox Russians claim to attend services even once a month

By contrast, foreign missionaries are well trained and energetic. Their message is often more appealing, their congregations livelier. They get involved in social work more readily than their Orthodox competitors. In the past ten years polls show the Orthodox church's standing to have fallen sharply. Other churches, particularly the Roman Catholics, are flourishing.

The patriarchate sees this as unfriendly behaviour from a sister church that should stick to its own patch, not take advantage of another's weakness. The result is extreme Orthodox twitchiness. The Vatican, for example, recently announced a reorganisation of its structure inside Russia into full dioceses. The presentation of the move could have been better but the outrage it caused among the Orthodox hierarchy was remarkable.

President versus patriarch?

Just how the cancellation of the two Catholics' visas is linked to this background tension is unclear. Patriarch Alexy insists that it is not his doing. And indeed in private he seems more reasonable than some of the clericocrats around him. But the 73-year-old Orthodox leader has not condemned the

harassment of the Catholics. That is in line with his general stance: he is notably unwilling to offend the powerful obscurantist wing of his church, for instance by condemning anti-Semitic statements or taking any but timid steps towards other churches. He has vehemently, and so far successfully, objected to a papal visit to Russia. There are signs that Mr Putin, a regular churchgoer, is fed up with this. He makes a point of praising Orthodox faith and tradition, rather than the hierarchy. The Kremlin's own relations with the Vatican are quite friendly. Mr Putin has made it clear that he would welcome the pope, if only the patriarch would.

And this time the obscurantists may have gone too far. Having someone barred from Russia is not difficult, if you have friends in the right places. An embassy may protest, but usually to little effect. Now, however, the result is a very public diplomatic row. Russia is formally committed to freedom of movement and religion, both by its constitution and through memberships of bodies such as the Organisation for Security and Co-operation in Europe. Poland, the Vatican and others have all made strong protests. In the run-up to next month's summit with George Bush, this is just what Mr Putin does not want. As he tries to portray a new image of Russia as a worthy and predictable partner for the West, it behaves in a secretive and arbitrary style reminiscent of the Soviet Union.

Officialdom's reaction has so far been mixed. There has been no response to the diplomatic protests. The foreign ministry said there had been “strong complaints” about the Polish bishop. Anonymous security sources said the Italian priest had been spying. A government minister, also anonymously, said if the church was behind the ban, it showed “medieval obscurantism”. The Kremlin has maintained a studious silence.

Some think Mr Putin will seize the chance to look good and speak out strongly in favour of fair treatment for the Catholics, and maybe even encourage the patriarch to think of retirement. The problem—as with much of the president's nice-sounding policies, domestic or foreign—is that many of the people who run the country think very differently. Xenophobia, disrespect for the law, and readiness to make decisions that suit powerful insiders are all deeply rooted in Russia's bureaucracy. There is no strong lobby for religious freedom to help change that—least of all, it seems, the head of the country's largest church.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Elected mayors

The enemy of my enemy

Apr 25th 2002 | MIDDLESBROUGH
From The Economist print edition

Only politicians are less popular than politics

Get article background

SOME blame the stupefaction of affluence, others the death of ideology, but most British politicians concede that their business bores people. Local politics are especially anaesthetic. So to help perk up democracy, Tony Blair hit upon the idea of letting voters elect their own mayors. Most have responded with a yawn; but apathy may be more palatable for politicians than the likely outcome of next week's mayoral election in Middlesbrough.

The residents of 23 towns have so far been asked whether they want to elect a mayor; only eight have endorsed the idea, and only Middlesbrough—where 84% of those who voted said yes—with much enthusiasm. The explanation for this fervour is Ray Mallon, a former policeman.

Mr Mallon's crime-cutting derring-do in Middlesbrough and neighbouring Hartlepool once earned him back-slaps and handshakes from politicians of all stripes. So it was an embarrassment not only for Mr Mallon himself when, in December 1997, he was suspended along with numerous colleagues, amid allegations of serious malpractice in his police force, much of it involving drugs.

Probably only Mr Mallon knows what and whether he did wrong, and years of vociferous denial may have muddied even his memory. He claims to have been the victim of concocted charges and envious conspiracies. No criminal prosecutions have been brought, but the costly feud rumbled on until February, when he pleaded guilty to 14 disciplinary charges—though only, he says, to extricate himself from the police and fulfil his avowed intention to stand for mayor. Then things really turned nasty: Mr Mallon's former boss and bitterest foe accused him of presiding over an “empire of evil”.

Polls suggest that voters in Middlesbrough have shrugged off this familiar-sounding rhetoric. Indeed, probably only a dramatic surge of atavistic Labour loyalty can rescue Sylvia Connolly, Labour's impeccably Blairite mayoral candidate. A gaggle of cabinet ministers have visited her in solidarity (or desperation); but some of Ms Connolly's local Labour colleagues first courted Mr Mallon to be their candidate, and then supported him when he stood as an independent.

Bring in the clowns

The last time voters were asked to pick a mayor, Londoners plumped for ‘Red' Ken Livingstone. Arguably, they gave an intentionally silly answer to a silly question, since—as has become all too clear—London's mayor has few real powers. By contrast, says Tony Travers of the London School of Economics, the

mayors of towns such as Middlesbrough will be much more akin to American-style “emperors of the city”. So why this support for Mr Mallon, a controversial political ingenue?

Middlesbrough—like most of the places that plumped for mayors—will be a shabby sort of empire, evil or otherwise. Three of its wards rank among England's ten most deprived; in some of them, unemployment is four or five times the national average. Then there's the crime. “I don't think they like Mr Mallon round here,” said a teenager in North Ormesby, a down-at-heel neighbourhood not far from the football stadium that is the town's principal adornment: “they're all criminals.” Just before Mr Mallon turns up to press the flesh in the marketplace, itself surrounded by boarded-up council housing, a brawl breaks out between stallholders and a shoplifter, who is eventually arrested (“He'll be back later with his mates,” says one market veteran).

In this aggrieved atmosphere, Mr Mallon is greeted by shoppers with the sort of veneration otherwise reserved for over-paid football stars. Many people in Middlesbrough have evidently seized on him as a quick fix for their many problems, without worrying too much about his past; the powers of the mayor (who, in fact, will have almost no say over policing) or the extent of his management experience. “What experience did Tony Blair have?” Mr Mallon asks reasonably, if not—given the state of Britain's public services—all that encouragingly. Some of the residents living in squalid housing nearby claim never to have seen another politician.

But then Mr Mallon's most important credential is probably that he isn't a politician—despite his “five key pledges” and his snappy suit (“He's too American,” says a taxi-driver, referring to the suit). Mr Mallon himself says that some of his supporters will be voting against the council rather than for him. Even Ms Connolly, his rival, who is the council's deputy leader, says some people in Middlesbrough feel that “it's been like this for ages and no-one seems to be able to do anything about it.”

So the lesson of the mayoral experiment seems to be that the best way to rejuvenate politics is to bypass politicians. Perhaps that's why the government seems to have gone off the idea.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Transport

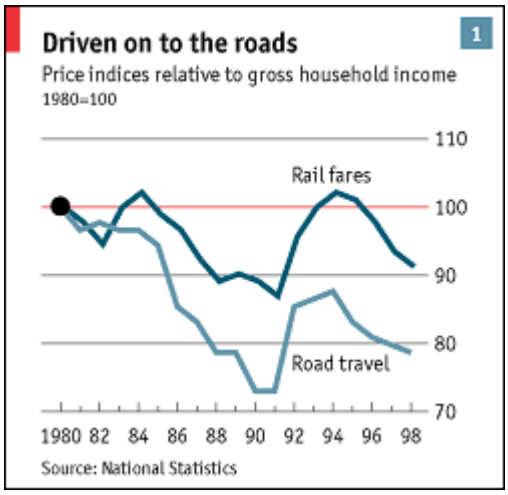
Tolled you so

Apr 25th 2002
From The Economist print edition

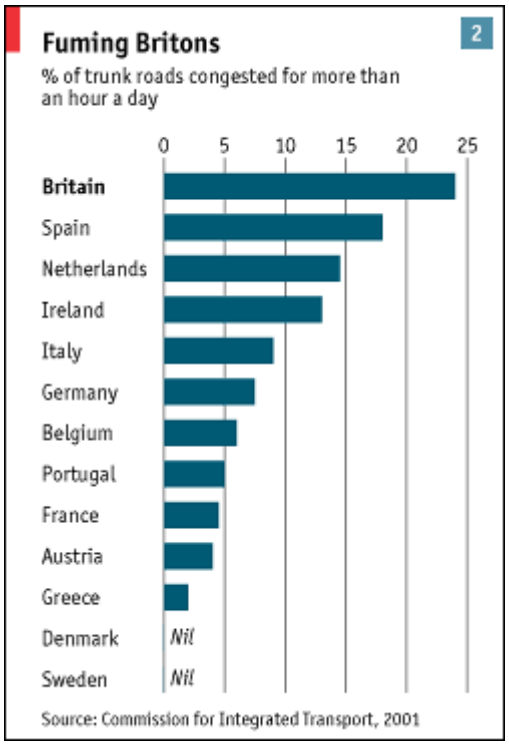
When Lord Birt reports to the government next month on the transport crisis, he will advocate road tolls. The idea makes the government very nervous

AFTER more than half a century of under-investment, Britain's roads are the most congested in Europe and its trains are among the worst in the rich world. Even the Treasury acknowledges that Britain suffers from "an overcrowded, under-planned and under-maintained transport system." That's why, last year, Tony Blair asked Lord Birt, a former director-general of the BBC, to come up with a solution. The prime minister's choice of a friend with no track record in government who admitted to knowing nothing about transport was widely interpreted as a snub to his transport secretary, Stephen Byers; but it was probably more a measure of desperation.

Next month, Lord Birt is due to present his findings to Mr Blair. There are no plans to publish the report. According to well-informed sources, it will call for a big increase in road-building accompanied by tolls in towns and on motorways.



The real costs of motoring have been falling for decades (see chart 1). Not surprisingly, car use has risen steadily over the period. British roads are now by far the most congested in Europe (see chart 2). British drivers spend on average twice as long as the Italians each day commuting to work and a quarter more than the French.



Politicians do not like the idea of making motorists pay, because they fear charges will be unpopular. But Lord Birt will argue that unless road use is thus discouraged, traffic congestion will get worse. His report will also call for taxes on companies that offer parking to their employees, as well as more investment in public transport, particularly bus travel.

Most transport specialists agree with Lord Birt. Nearly all the recent road studies the government has commissioned have supported the use of road tolls. The Royal Automobile Club (RAC), which next month is due to publish "Motoring Towards 2050", a study it has been working on for a year, is convinced of their merits. But it will also argue that charging has to be accompanied by investment in new roads and information systems to quicken traffic flows if the government is to succeed in selling the idea politically.

The Commission for Integrated Transport does not share the RAC's enthusiasm for large amounts of road-building. Its chairman, David Begg, is critical of those who believe that Britain can build its way out of congestion. “A big road-building programme without pricing is as ludicrous as giving a heroin addict a last fix,” he says. But he agrees with the RAC on the importance of charges. That will come out in the commission's report next month on the progress of the government's 10-year transport plan. The report will also include an opinion poll suggesting a shift in public attitudes: 60% favour tolls if the revenues are used to improve transport and other motoring taxes are reduced.

It is unclear how the prime minister will react to all this advice. The government has been sending out conflicting signals about its attitude to road tolls. It endorsed them two years ago in its transport plan, and passed legislation to give local authorities the power to introduce charges; but the junior minister of transport, John Spellar, is privately hostile, and, as a sop to motorists, last week's budget froze duties on fuel.

However, in a boring-sounding, little-noticed measure, the chancellor also introduced a new method of taxing trucks which could be the precursor for a national congestion-charging scheme. The new lorry tax, which will replace existing vehicle excise duties in 2005, will be based on satellite technology, enabling a charge to be levied according to distance and route travelled. Many truck-owners have already installed satellite receivers in their vehicles, so that they can check on their trucks' whereabouts. This technology can be extended to satellite-based congestion charging for cars.

Before risking their own necks, ministers will want to see what happens in London. The capital's mayor, Ken Livingstone, is committed to introducing a £5 daily fee on cars entering the city centre from next January. London is the first big city in the world to try this, so much hangs on it. As a government adviser says, “If Ken falls flat on his face and congestion remains as bad as ever, we will all have to think again.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Northern Ireland

Mr Adams regrets

Apr 25th 2002
From The Economist print edition

A series of new embarrassments threatens Sinn Fein's ambitions

GERRY ADAMS, leader of Sinn Fein, the IRA's political wing, is not usually one to turn down invitations from high-ranking Americans, but his refusal to attend a hearing of the House of Representatives' international relations committee on April 24th was perhaps understandable. The committee's nine-month investigation into links between the IRA and Colombia's Marxist guerrillas has concluded that the IRA, along with Iranians and Cubans, has been training the FARC.

The Colombian affair began last August when three republicans—two known IRA members, James Monaghan and Martin McCauley, and Niall Connolly, a Spanish-speaking Sinn Fein representative in Cuba—were arrested as they left the area controlled by FARC guerrillas. The three are awaiting trial in Bogota on charges of instructing FARC in bomb-making and travelling on false passports.

Other recent developments have suggested IRA activity closer to home. The family of a Catholic taxi-driver shot dead last week in County Tyrone blames local IRA men pursuing a private vendetta. A raid on Special Branch offices in the Belfast Castlereagh police complex is still a mystery. The inside knowledge displayed by the raiders and the nature of the papers stolen suggest either an inside job or an IRA operation aided from within.

Computer material found in follow-up searches of republicans' homes and offices included a partial data-base on leading Conservative politicians. Some senior security sources promptly dubbed this a “hit-list”. Equally senior sources described it less dramatically, pointing out that the material was widely available, dated from John Major's days and did not include the names of present Tory leader, Iain Duncan Smith, or the spokesman on Northern Ireland, Quentin Davies.

A similar argument surrounds a leak, supposedly from military intelligence, to the *Sunday Telegraph*, which claimed on April 21st that leading IRA men had bought at least 20 Russian special forces assault rifles, in Moscow late last year. Senior government sources called this an exaggeration but without flatly denying it.

In the past three days, the IRA has denied involvement in either Castlereagh or Colombia. This is a measure of republican worries about the damage all this has done. Until now, Sinn Fein's chances of increasing its representation in the Irish Dail in the forthcoming elections from a single seat had been rated highly. The Congressional hearing risks further damaging American fund-raising efforts, already suffering from American antipathy to all forms of terrorism.

The government is still downplaying accusations against the IRA, in the interests of the remarkably resilient peace process. But further details may come out of the Bogota trials, and more embarrassments are inevitable. As long as the IRA continues to exist, joined at the hip to Sinn Fein, such accidents are bound to hinder Sinn Fein's long march towards respectability.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Historical re-enactment

Déjà new

Apr 25th 2002
From The Economist print edition

One way to learn about the past is to live it

BRITONS have always enjoyed a good show. And if it's good enough, they don't mind seeing it again. In 1645 Oliver Cromwell's troops restaged one of their recent victories on Blackheath, while their war with the royalists raged on elsewhere. Today, re-enactment—organised events, that is, at which ordinary folk dress up as figures from the past and recreate historical events—is booming.

The re-enactment business's origins can be traced back to a fancy-dress party thrown in 1968 by a group of civil war enthusiasts called the Sealed Knot. It was a hit. More than 30 years on, the Sealed Knot is still Britain's biggest society of re-enactors, with more than 6,000 members.

For the next 15 years the re-enactment scene remained fairly small-scale. Then, in the early 1980s, Howard Giles joined English Heritage. To make the country's stately piles more attractive to visitors, Mr Giles organised a programme of events incorporating re-enactment and “living history” displays. “For the first time, knights in armour actually looked like knights in armour, not just guys wearing bits of old Skodas,” Mr Giles recalls.

The programme has been wildly successful. Mr Giles reckons that these days around 1,000 re-enactments of one sort or another—ranging from beery hobbyists whooping it up in red and white garb on St George's Day to full-dress reprises of the battle of Waterloo—take place in Britain every year. And more than a million people are willing to pay good money to see them.

Until very recently, re-enactment was mostly a tourist and educational industry (“If your school or college is running a project on the Civil War period, the Sealed Knot can provide you with experts on everything from cookery to clothes, education and politics, through to weapons and battle strategies”). But over the past few years, history has become an improbably popular subject for prime-time television and Hollywood blockbusters. Re-enactors are being snapped up by producers, who find them more convincing than bog-standard extras.

For spectators, Mr Giles says, a re-enactment provides a colourful, exciting and instructive historical experience. “You can see it, hear it, smell it. When cavalry or tanks go past, you can actually feel it.” And for participants it represents a unique, hands-on approach to learning about the past. Either that or a good excuse to dress up in funny clothes and meet like-minded time-travellers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Budget, continued

The immigrants' contribution

Apr 25th 2002
From The Economist print edition

The Treasury's growth forecasts depend on the current, unprecedentedly high, rates of immigration continuing. That's a dangerous assumption

IF GORDON BROWN thought that last week's budget would escape a backlash, he was mistaken. Business was furious about the £4 billion impost in higher national insurance contributions that starts next year. Working households were counting the cost of their higher NI payments, which will raise a further £4 billion.

So think how much more outrage there would have been if Mr Brown had raised £12 billion rather than £8 billion. In fact, that is precisely what the chancellor did. This further £4 billion was not another stealth tax, like the raid on pension funds in Mr Brown's first budget in 1997. Rather, it was a stealth gain, achieved by assuming a rise of a quarter of a percentage point in the trend rate of economic growth. This apparently small change will push up tax revenue by £1 billion each year, reaching £4 billion in 2005-06.

Economic growth varies a lot from year to year because of the business cycle. But trend growth is by definition more stable, since it filters out these cyclical influences. Curious, then, how variable the Treasury's estimates of the trend rate have been in the past few years. When Mr Brown became chancellor in 1997, he advertised his caution by cutting the trend rate from 2.5% to 2.25% a year. In 1999, it was back up to 2.5%. Now it has risen again to 2.75%.

This new, higher, figure allows Mr Brown both to insist that he is as cautious as ever—he bases his budget calculations on a quarter percentage point less than the Treasury's forecasts—and to jack his growth figure up by a quarter point. The Treasury's new forecast is higher than the long-run rate of economic growth, which has been around 2.5% for half a century. So how convincing is it?

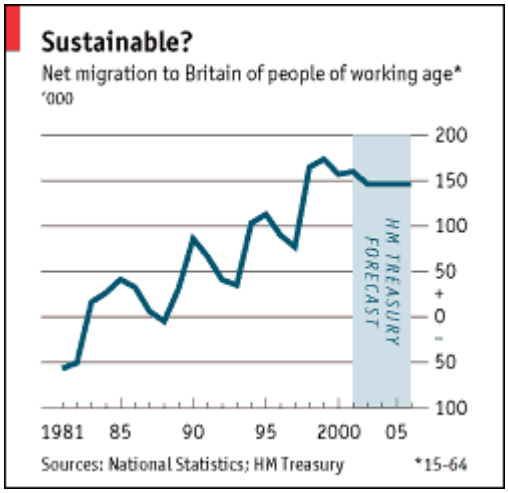
Economic growth can be split into three basic components: productivity, the growth in output for each hour worked; demographics, the growth in the working-age population; and employment, the growth in the number of hours worked in relation to the working-age population. The Treasury bases its new optimism about growth not on new-economy hopes of higher productivity gains but on distinctly old-economy demographics. It now expects growth in the working-age population to be about a quarter of a percent higher than it did in 1999.

The reason, says the Treasury, is that the number of immigrants has been surging and will continue to do so. The Government Actuary's Department (GAD), which forecasts population numbers, now expects net annual inflows—the balance of the much larger flows of immigrants and emigrants—of 120,000 people of working age, up from 85,000 in its previous forecast in 1998. It calculates that net migration will account for 60% of the growth in the working-age population between 2002 and 2006. The Treasury thinks that even this may be an under-estimate and uses 146,000 in its projection, midway between GAD's principal and high projections.

Despite the pronounced upward trend in inward migration (see chart), there are reasons to doubt these projections. Immigration is volatile, not least since much of it occurs when people try to escape intolerable conditions in other countries. Asylum-seekers accounted for 28% of non-British immigrants in 1999, representing about a half of net migration. Official policy is of course to discourage asylum-seekers.

Another reason to question the new projection is that an increase in the working-age population generated by migration is likely to

produce fewer extra workers than the Treasury assumes. Many migrants are students: only about 60% are employed before entering Britain, according to a recent study for the Home Office by the migration research unit at University College, London. This contrasts with an employment level of Britain's working-age population of 75% and is lower than the percentage of emigrants who are employed before they leave the country. This suggests that between 1995 and 1999 only about two-fifths of the net balance of working-age migration—excluding asylum-seekers—contributed to employment in Britain.



But even if the immigration boom were to contribute as much extra growth as the Treasury now expects, there must be some doubt as to whether there is political support for maintaining it at its current level, for two reasons. First, immigration "is now the main engine behind household growth in England and especially in the south-east," says David Coleman, a demographer at Oxford University. More immigration either means more house-building—to which there is fierce objection—or further house-price rises, and the problems that follow from that.

Second, the rise of the far right across Europe is, rightly or wrongly, generally believed to be connected to rising immigration. Migration into Britain has recently been running at unprecedented levels, and the Treasury's figures assume that this will continue. Whether or not it does must depend at least in part on political factors beyond even the Treasury's control.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Forests

Soft money and hard wood

Apr 25th 2002
From The Economist print edition

Forests are spreading; and now that the government regards forests as being for fun, rather than for cash, a better class of tree is being planted

Get article background

THE pop group Pulp has found its most appropriate venue yet: five open-air concerts deep in various forests. Hanging out in woods is an increasingly popular activity in Britain. One of the Pulp concerts is part of TreeFest 2002, a series of tree-related activities organised in Scotland by the Forestry Commission, the body which runs 800,000 hectares of state-owned forests. The Forestry Commission thought it might string together about 200 or so events under its TreeFest brand, but it has found over 600.

Despite the depredations of Dutch elm disease and other arboreal pests, Britain now has more trees than at any time in at least the last three centuries. A national inventory of trees by the Forestry Commission has revealed that 11.8% of Britain is forested. About 8.5% of England is covered by them, 14.2% of Wales is forested, as is 17.2% of Scotland. Britain's tree cover is still thin by European standards (the EU average is about 33%), but things are looking greener than they were in 1895, when less than 5% of Britain was woodland.

Almost all of this growth is due to the Forestry Commission, set up in 1919 to ensure, among other things, a domestic supply of pit props and railway sleepers after the demands of the industrial revolution, followed by the first world war, had more or less stripped the country of timber. A tax break encouraged landowners to take up tree-planting, too. And since softwoods grow faster than hardwoods, the public and private sectors blanketed hillsides in gloomy Sitka spruce.

The tax-breaks were abolished in 1988, and the Sitka spruce have turned out to be a commercial disaster. Forests planted in the 1960s and 1970s are now reaching harvest age; production in Scotland is forecast to rise from about 4m cubic metres now to 10m cubic metres in 2020. But wood prices, thanks to the impact of paper recycling and the growth of cheap wood imports from Baltic countries, have fallen to their lowest ever. Scottish forests also tend to be in remote places where roads are bad or non-existent.

Planting is now lower than at its peak in the late 1980s, but forests are still spreading. Landowners planted 17,800 hectares in 2001, helped along by £34m of government money. Subsidies make forestry a reasonable alternative to arable, these days. The hand-outs are designed to encourage mixed, broad-leaf plantations. They are more popular with the clientele—the townies who want a breather—less prone to pest attack and they encourage a greater diversity of wildlife. Nearly three-quarters of trees now being planted are broad-leaved—oak, ash and birch are particularly popular. Fewer than a fifth of the conifers now being planted are the hated Sitka spruce.

The Forestry Commission now plants hardly any trees at all. Thanks to the collapse of the Sitka spruce market, Forest Enterprise, the Commission's commercial arm, lost £33.6m in 2000-01, though it still has £1.2 billion in assets, mostly forests and houses. Privatisation (an option being considered in a ministerial review due to report later this year) beckons.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Muzak

A sour note

Apr 25th 2002
From The Economist print edition

Turning up the volume of protest against muzak

IT MAY be the food of love; but it is also the fuel of class war and intergenerational conflict. The older you are and the richer you are, the more you are likely to hate muzak. It's on that basis that Pipedown, the anti-muzak resistance group, is launching a new campaign to persuade retailers that playing looped renditions of Abba's greatest hits is not necessarily good for business.

In the six weeks to Christmas, according to Pipedown, many shop workers are forced to listen to “Jingle Bells” more than 300 times. It is not surprising, then, that research carried out by the Performing Rights Society found that piped music can be “irritating or create great distress”. But as the PRS makes more than £200m a year for its members by licensing the stuff, it can hardly be expected to campaign against it. That is left to Pipedown, which boasts a distinguished group of musical and stage supporters, including Alfred Brendel, Tom Conti, Stephen Fry, Simon Rattle and Prunella Scales.

Muzak's ubiquity stems from its assumed commercial advantages. It certainly works in some clearly-defined situations—drummed into the brains of teenage girls in dress shops, for instance—but Pipedown doubts its general efficacy. The pressure group points out that some of the country's most successful retailers, such as Tesco and Waitrose, do not inflict music on their customers.

Tesco says its decision is based on research which shows its clientele prefers silence. Wetherspoon's, a fast-growing chain of pubs, also has a policy of allowing its punters to drink in silent bliss. Gatwick Airport, which carried out a survey of 68,000 travellers, found that 43% said they disliked having music pumped at them, compared to 34% who said they liked it.

A poll carried out by NOP in 1998 found some groups far more hostile than others. Nearly half of those aged between 45 and 54 said they found muzak annoying, a figure that rose to 86% for those whose hearing is poor. Only 21% of 15-to-24-year-olds said they disliked piped music. More than half of ABs disliked muzak, compared to just over a quarter of DEs. Still, the stuff can occasionally be put to good use. The managers of Tyneside Metro, plagued by loitering hooligans, solved the problem at a stroke by playing Delius over the station loudspeakers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bagehot

Could it happen here?

Apr 25th 2002
From The Economist print edition

Britain's fascists are not very successful, but they still make life awkward for mainstream politicians

EVEN before the success of the fascist Jean-Marie Le Pen in the first round of the French presidential elections, there was a worry that the far-right British National Party might chalk up a few victories in next week's local government elections. However, thanks to Mr Le Pen's slightly freakish breakthrough, the BNP is a getting a degree of political and media attention that it can only have dreamed about. What's curious is that people don't quite seem able to make up their minds whether to fear the BNP or dismiss it as a bit of joke.

Britain's fascists don't yet do anything like as well electorally as their continental analogues. At the last general election the BNP won 0.2% of the vote. Next week, it will be contesting only 68 out of the 5,878 council wards where there are elections. Of those, 18 are in just two towns, Oldham and Burnley. The BNP considers these former mill towns in Lancashire its most fertile recruiting-ground because of the tensions that exist between the largely segregated communities: one, white and working class; the other, Muslims from the Indian sub-continent. Last summer, both places briefly hit the headlines after a series of racially-influenced disturbances, while the BNP's leader, Nick Griffin, came close to winning second place in Oldham West at the general election. Unlike elsewhere in Europe, the far right's impact has thus been both narrowly local and strictly limited—so why all the fuss? Does anybody seriously believe Mr Le Pen could happen here?

Conviction politics

The short answer is probably not. For one thing, the British electoral system makes it far harder for fringe parties to be taken seriously. And as far as being taken seriously is concerned, the BNP is itself an obstacle, being distinctly short of the kind of fascist smoothies that seem so plentiful abroad. The BNP is what it has always been—a collection of sad loons and thugs. It's said that in the BNP you're not regarded as a conviction politician until you've been convicted. Paradoxically for a party that campaigns on law and order as well as race, a lot of its leading lights have done time inside for crimes involving violence and drugs. Although Mr Griffin, its fresh-faced leader since 1999, went to Cambridge, most of the BNP'S predictably poisonous propaganda material is almost touchingly illiterate.

For all that, the BNP does present the mainstream parties with real dilemmas. The election of just a handful of BNP councillors next week could easily trigger more racial conflict. In Oldham and Burnley, the local Labour party has been torn between wanting to deny it the publicity that could aid its momentum and talking up the threat in an effort to prevent the low turnout that is the BNP's best friend. Phil Woolas, a local MP, fears that voter apathy could mean BNP councillors being elected with fewer than a thousand votes. He has called upon anyone wanting to protest against the government by abstaining to vote for any party but the BNP. Even the additional funding that is coming to the area in the aftermath of “the disturbances” is confusing. Imagine, says the BNP, how much more panic money will flow in if you elect a few of us.

Another dilemma is the extent to which the respectable parties should combine “to keep the fascists out”. It's a nice idea, and seems sensible given what happened in France, where the left frivolously atomised its vote to Mr Le Pen's advantage. But the far right does best when voters suspect the established parties of acting as a cartel bent on stifling the angry and the frustrated. Just as co-habitation in France has helped Mr Le Pen, so the coalition-minded politics of Labour and Liberal Democrat councillors in Oldham and Burnley has created opportunity for the BNP. Vigorous political competition is likely to hurt the BNP much more than well-meaning collusion.

But the greatest dilemma is how the respectable parties should confront the issues that give life-blood to the fascists—in particular, the corrosive belief that immigrants and asylum seekers exploit generous benefit systems, impose their alien cultures on the indigenous population and contribute nothing in return other than crime. Holding one's nose and looking the other way, as did the hapless Lionel Jospin, is not the answer. On the other hand, when William Hague made “bogus asylum-seekers” an election issue he was accused of shamelessly pandering to prejudice. The question for good democrats is how can they show that they are responding to the real fears and resentments of many ordinary people without legitimising the racist attitudes that frequently underly them.

Labour congratulates itself for not having become, in the fashionable expression, “disconnected” from the concerns of working class voters like “poor old Jospin”. But striking the right balance is almost impossible. The home secretary, David Blunkett, is not unhappy that he upsets liberals by expressing his doubts about multiculturalism or suggesting that new citizens should swear an oath of allegiance. Nor that his tough new immigration and asylum bill, which received its second reading this week, has attracted protests from more than 50 Labour MPs. Mr Blunkett argues that the friction caused by the current “failed asylum system” has acted as a “firelighter for the BNP”. As one of Mr Blunkett's colleagues put it: “People who are worried about these things can see that Blunkett gets it.”

Mr Blunkett may, however “get it” just a little too much. The government was clearly embarrassed when Mr Blunkett, in this of all weeks, talked of asylum-seekers “swamping” local services. Once, when Margaret Thatcher expressed sympathy with people who felt “rather swamped” by immigrants, she too was condemned by the *bien-pensant*. The uncomfortable truth is that there is a price to be paid for being “connected”. Keeping the pond life of the BNP to the outer margins of politics is a grubby, morally-compromising, business.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Asian companies and the China challenge

Soaring dragon, busy tigers

Apr 25th 2002 | HONG KONG
From The Economist print edition

Corbis

The rapid industrial rise of China is the third shock in quick succession to companies in neighbouring economies. How are they adjusting to it?

ITS name, Giordano, sounds Italian. Its business model, too, rings western—as a fashion retailer, similar to Gap, Giordano trades largely on its brand name and makes money by maximising "asset turnover" (sales divided by assets) and other management ratios beloved of Harvard Business School. Even its ownership seems Anglo-Saxon: Giordano's shares are publicly held and no single owner has control. All of which makes Giordano something of a rarity, for it is Asian.

A typical description of a traditional company from Hong Kong, Giordano's home, or from the other "tiger" economies in East Asia, would be the exact opposite. There would be no concept of branding. The business model would be based not on pushing more sales through fixed assets, but on asset-trading—buying a property or other commodity and selling it for profit at the first opportunity, with no attempt to build a lasting franchise. A founding family would control the firm and run it one transaction at a time.

If that business model is now in decline, and gradually being replaced by the one that Giordano espouses, it is thanks to three powerful economic shocks. The first—severe, but nonetheless short—was the financial crisis of 1997. The second—also severe, but now also looking ephemeral—was last year's collapse in the region's western export markets. It is the third shock, the rapid industrialisation of mainland China, that is now proving the biggest, and most lasting, catalyst for change.

East Asia's tigers industrialised in the 1970s, 1980s and early 1990s, when China was just starting to re-enter the world economy after its long Maoist isolation. In those years, tycoons in the tigers could count on two things in their favour. The first was an advantage in labour costs over rich countries, which allowed tiger firms to out-compete their western rivals in manufacturing anything from shoes to ships. The second was predictably rising prices, which made the tycoons' asset-trading a sure bet. Companies such as Sun Hung Kai, Hong Kong's largest property developer, and OUB, one of Singapore's top banks, rose to riches simply by riding inflation.

The China comparison

China's gradual re-entry into the global economy during the 1990s, and its recent acceptance as a member of the World Trade Organisation, mark the end of this phase. The relevant cost comparison in

labour-intensive industries is no longer between the tigers and the West, but between China and everybody else—and China, with average manufacturing wages of 60 cents per hour, usually wins hands down. Moreover, China, with overcapacity in nearly every export sector, is now spreading deflation to the rest of Asia. “The Asian crisis was a one-time shock,” says Andy Xie, an economist at Morgan Stanley in Hong Kong. “But China means that the whole region can never return to inflation and mere asset-trading.”

China therefore spells doom for many once-illustrious companies in the tiger economies. Giants such as Formosa Plastics, once a Taiwanese petrochemicals blue chip, or Henderson Land, one of the biggest Hong Kong property developers, have already become mere shadows of the empires they used to be. But others are more nimble. Corporate re-engineering, a fairly new term in East Asia, has begun.

It comes in three main forms, of which two are easy and opportunistic, and one is difficult and far-reaching. The first two are about companies decoupling from their home economies. On the cost side, this often means moving factories to mainland China. Already, for instance, over half of the information-technology products of Taiwanese companies are actually made on the mainland. Acer, Taiwan's best-known computer brand, looks increasingly like a mainland company with a head office in Taipei. The same shift is also happening on the revenue side. South Korea's Samsung Electronics, for instance, is hoping to triple its sales in China to $7 billion in three years.

It is the third form of restructuring, however, that is transforming the soul of companies: changing their position in what consultants call the “value chain”. Here, China is the catalyst, but the change affects how tiger companies are situated not in China, but in third-country markets or at home.

Traditionally, tiger companies have been good at “back-end” functions such as trading, production and logistics, reckons Mark Daniell of Bain, a consultancy, and bad at “front-end” stuff such as marketing, design, innovation and packaging. “Now China is the ultimate back-end machine,” says Mr Daniell. This forces tiger companies to build a front end.

Mostly, this means concentrating on intangibles. Take, for instance, semiconductors, a business in which South Korea, Taiwan and Singapore are strong, but into which China is now aggressively moving. What does, say, Taiwan Semiconductor Manufacturing Company, the world's largest non-branded chip maker, sell that China's mushrooming foundries cannot offer? Morris Chang, TSMC's chairman, says that it is “trust”, not only in quality but also in the security of a customer's intellectual property.

The most successful tiger companies often restructure in all three ways. Consider Giordano again. These days, it sources some 90% of its garments from mainland China. The mainland, where Giordano already has 500 outlets, is also the biggest sales contributor. More fundamentally, however, in recent years Giordano has changed its corporate culture to concentrate on such soft skills as inventory management, store layout, service and style.

The key intangible that China is forcing Asian companies to cultivate, says Peter Lau, Giordano's chief executive, is “differentiation”. A shirt, for instance, is a commodity; and Mr Lau thinks there is no money in competing with mainland China in selling commodities. But take a shirt and turn it into an image (a promise of hipness, say), aim it at a specific customer segment (such as young Filipinos in Hong Kong), and display it to them in the right setting and with enthusiastic service, and you have both differentiation and a winning business model.

There is, in other words, nothing mysterious about the effect that China is having on corporate strategy in the rest of East Asia. Companies in the tiger economies are undergoing the same sort of evolution as those in America and Europe once did. Indeed, they would probably have started thinking about differentiation anyway, even had China remained closed to the outside world, says Usha Haley, an expert on Asian business from the University of Tennessee. It is just that now the change is no longer one of ambition, to be pursued at leisure, but one of survival, to be started at once.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Oil

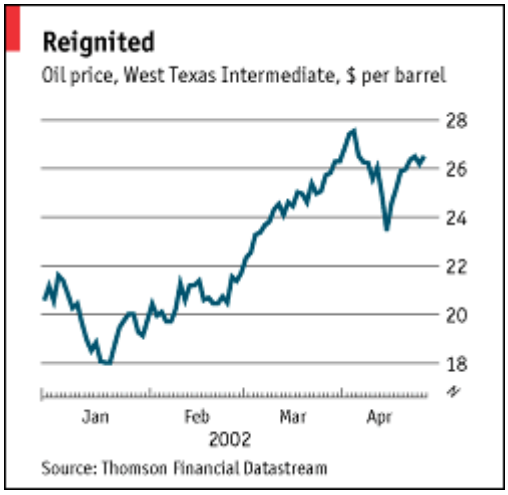
A cartel in search of comfort

Apr 25th 2002
From The Economist print edition

OPEC loses its head, but it has no reason to fret about the oil market yet

Get article background

TURMOIL in the Middle East, a coup and counter-coup in Venezuela, a sudden stop to exports from Iraq and even talk of an oil embargo. No wonder the oil price is around $26 a barrel, about a third higher than it was three months ago (see chart).



If that is not enough to roil the oil market, punters now have something new to worry about: Ali Rodriguez, secretary-general of the Organisation of the Petroleum Exporting Countries (OPEC), is to step down shortly. Although popular among the cartel's members, he has given in to intense pressure to return to his native Venezuela to run Petroleos de Venezuela (PDVSA), the state-run oil company, whose disgruntled workers and managers were involved in the short-lived coup against President Hugo Chavez.

At first blush, this turn of events might seem bad news for the cartel. Mr Rodriguez played an important role in keeping the squabbling factions within OPEC together during his tenure—thus preventing a price collapse. Replacing him will not be easy, as the new boss must be chosen unanimously—a tall order for the fractious cartel. Because none of the Gulf states really trusts its neighbours, for instance, each refuses to back a candidate from elsewhere in the region; no candidate from the Gulf has held the top job in nearly 15 years.

So could OPEC be heading for trouble? Not necessarily. It might seem rudderless without a boss, but the fundamentals of the oil market still point to a fairly comfortable few months ahead for the price-fixers.

Reuters

Chavez needs Rodriguez's help

For a start, the demand picture is bright: the outlook for the global economy seems to be better than many had forecast (especially in America), and the peak “summer driving season” is approaching in the northern hemisphere. America's Energy Information Administration also released a report on April 24th arguing that although domestic oil stocks rose last week, the trend remains down. “Inventories, which were about 40m barrels above year-ago levels as recently as the week ending March 1st, stand at just 3.9m barrels above year-ago levels,” the report said.

The supply picture also looks good for OPEC. One reason is that the cartel's members are not cheating as outrageously as they often used to on their quotas. What is more, despite the inevitable short-term chaos, the return of Mr Chavez to power in Venezuela actually strengthens the cartel. After all, he played a key role in lifting prices from their low of around $10 a barrel three years ago through his zealous devotion to OPEC quotas.

Even the nasty developments in the Middle East are probably not as threatening to oil markets or OPEC as they appear at first. All the talk of an oil embargo—talk that Iraq started a few weeks ago and that Iran encouraged this week—evokes scary images in consumers' minds of the petrol shortages of the

1970s. But a serious embargo is unlikely, because it would spell poverty for OPEC members. They remember all too well that their attempts at using oil as a political weapon against Israel and its allies completely failed in the 1970s, chiefly because oil can always be redirected via non-embargoed countries.

Even Saddam Hussein's move on April 8th to cut off Iraq's 2m or so barrels of daily UN-approved oil exports will not be as disruptive as it might seem. For a start, he is still exporting large quantities of oil illicitly, with help from his neighbours. Secondly, Saudi Arabia has said repeatedly that it is ready to bring to life its idle capacity, which far exceeds the Iraqi shortfall, to ensure that the oil markets are not pushed to crisis by Iraq. In America this week, Saudi Arabia's oil minister, Ali al-Naimi, delivered this soothing message: “Saudi Arabia and OPEC will make up any shortage due to any reason—political, military or natural disasters.” His comment cooled oil prices slightly.

Saudi Arabia, the real power behind the secretary-general's throne, probably means it when it promises smooth sailing for the oil market. But do not be deceived: the Saudis are not promising low prices. Saddam Hussein has already sharply reduced his exports, but the extra Saudi oil promised by Mr Naimi has yet to materialise on the global market. Why? Mr Naimi answers delicately: “The question is when to make the move without destabilising the market...I am not going to anticipate what we are going to do [at OPEC's next official meeting] in June.”

Others are less coy. “Given all that's going on, oil sort of looks cheap at $26 a barrel right now,” says Peter Gignoux, a veteran oil trader at Schroder Salomon Smith Barney. Despite the recent rally, oil prices are still $4-5 below their average level in 2000—and, in real terms, barely half the peak they reached during the oil shocks of the 1970s.

On that view, it is a good time for the world's big consuming nations (including developing countries such as China) to build up buffer stocks, which provide the only real protection against short-term supply disruptions caused by embargoes, wars and the like. That would certainly be a better insurance policy for America, the world's biggest gas-guzzler, than drilling in pristine parts of Alaska for a small amount of expensive oil that could not reach the market for nearly a decade.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

The Microsoft trial

Bill Gates, software saviour

Apr 25th 2002 | SAN FRANCISCO
From The Economist print edition

Bill Gates's witness-box message: hurt Windows, and you hurt the world

Get article background

EPA

All smiles, this time

MONOPOLIES are good for you—or so monopolists would have you believe. Asked about Standard Oil, John D. Rockefeller once said: "The Standard was an angel of mercy, reaching down from the sky, and saying 'Get into the ark...We'll take all the risks.'"

Microsoft's Bill Gates had a similar message when, on April 22nd, he took the witness stand in his company's antitrust trial. Microsoft is an angel of mercy in the digital realm, and Windows is the ark that keeps the PC industry afloat, was the argument. Messing about with Windows would cause a digital apocalypse: confused consumers, incompatible programs, failing software firms and less innovation. Eventually, he said, Microsoft would have to take Windows off the market.

Mr Gates's testimony could prove as decisive for the outcome of the trial's remedies phase as was his first appearance, via a videotaped deposition, in October 1998 (he appeared ill-informed, tetchy and evasive, which undermined his credibility). If Judge Colleen Kollar-Kotelly buys into Mr Gates's world view, she will reject the tough remedies proposed by nine state attorneys-general, and approve the far softer settlement that Microsoft has negotiated with the Department of Justice.

From a historical perspective, Mr Gates has a point. On balance, Microsoft deserves credit for having created, in its operating system, a standard that makes life easier for users and programmers alike. In its early days, the PC industry was fragmented and probably needed a benevolent dictator of sorts to flourish.

Mr Gates is also right to say that complying with the nine states' remedies would be difficult. Microsoft would have to redesign Windows in such a way that PC makers could swap certain parts of the operating system for rivals' software. This would be a messy business—which is why many software experts have argued all along that a break-up of Microsoft would be a much cleaner solution.

Against all this, however, consider why Mr Gates had to show up in court to defend himself against these remedies. In July last year, the Court of Appeals unanimously ruled that Microsoft had repeatedly abused its monopoly power, crushing software that could have become a serious competitor to Windows, in particular Netscape's web browser and the Java programming language. A monopolist, however benevolent, always wants to remain a monopolist.

Mr Gates also seems to ignore the fact that, thanks to the Internet, the computer industry has since learnt to develop robust standards in more democratic ways—in standards bodies, such as the World Wide Web Consortium, and in open-source projects. Open standards are becoming ever more popular, not least because customers no longer like being dependent on a single company.

That is one reason why Microsoft was recently forced to abandon its plans to let consumers store online personal information—payment details, contacts, diaries and the like—direct on Microsoft's servers, to avoid having to give this data repeatedly to other firms' websites. Many large companies refused to adopt the technology, called myServices, because they were afraid that Microsoft might hijack their customer relationships.

If market forces are already eroding Microsoft's monopoly, why fret about the antitrust trial? Because the company still wields enormous power in the computer industry: the Windows share of the global market for desktop and laptop operating systems exceeds 90%, and Microsoft could yet slow the move towards open standards. Monopolists rarely give up power willingly, and often wreak havoc before they go.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Auction houses

More trials and tribulations

Apr 25th 2002
From The Economist print edition

No end to Christie's and Sotheby's woes

Get article background

CHRISTIE'S and Sotheby's, the world's leading auction houses, had hoped that this week would bring to a close the price-fixing scandal that has laid their reputations low. On April 22nd Alfred Taubman, a former chairman of Sotheby's, was sentenced in New York to a year and a day in prison and ordered to pay a fine of $7.5m. The judge said that Mr Taubman was not merely a member of the price-fixing conspiracy, but the initiating and driving force behind it.

Despite the end of the Taubman trial, the auction houses have little reason to be optimistic. Admittedly, the art market is robust. And Phillips, de Pury & Luxembourg, a smaller auction house, has recently become less of a threat to the duopoly at the top. After losing millions in his attempt to dethrone Christie's and Sotheby's, its deep-pocketed backer, Bernard Arnault, boss of LVMH, a French luxury-goods group, sold most of his stake in Phillips in February.

However, more legal troubles are in store for the big auction houses. Last week, the European Commission accused Christie's and Sotheby's of colluding to fix prices between 1993 and 2000. The two houses have six weeks to react before the commission decides whether to press formal charges, which could lead to fines of as much as 10% of the companies' worldwide revenues.

Worse still, an American appeals court ruled last month that clients who sold art at Christie's or Sotheby's outside America can claim damages for price-fixing in the American courts. Such international claims had been dismissed by Lewis Kaplan, the judge who ordered Christie's and Sotheby's in February last year to hand back $512m to sellers, arguing that American antitrust law does not apply abroad. The appeals court disagreed, and returned the case to a lower court.

On top of this, the auction houses have been struggling to make money in the past couple of years. Sotheby's lost $42m last year and $190m in 2000. Christie's, owned by François Pinault, a French billionaire who is Mr Arnault's great rival, does not disclose its results but is said to have made only a small profit last year.

To revive their fortunes, both Christie's and Sotheby's are restructuring and cutting costs. Experts in rare coins, porcelain and other arcane areas have been laid off or turned into consultants. But it will take more radical action to win over investors, who appear to be voting with their feet. Ronald Baron, chairman of Baron Fund, a mutual fund that is Sotheby's largest outside shareholder, has announced his intention to sell his stake. Mr Taubman has put his controlling stake in Sotheby's up for sale too. And even Mr Pinault is rumoured to be toying with the idea of selling Christie's. Given the auction houses' continuing woes, these sellers may find it tough to get the bidding going.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Mobile telecoms

Snap happy

Apr 25th 2002
From The Economist print edition

Can multimedia messaging live up to the mobile industry's hype?

THERE seems to be no let-up for mobile-phone companies. This week, Vodafone's shares fell to a four-year low, after the British group admitted that subscriber growth is failing to meet expectations; and Ericsson, the world's largest supplier of equipment for wireless networks, saw its shares fall by a quarter after announcing that it would cut up to 20,000 jobs and ask shareholders to stump up SKr30 billion ($3 billion) through a rights issue.

Small wonder that the industry is promoting new technologies with increasing desperation. Mobile operators are still licking their wounds after their failures with WAP, a crude form of web-browsing for mobile phones, and (so far) with third-generation (3G) services that will enable handsets to download music and video. Operators paid billions for 3G licences, but the technology is late and demand uncertain. Now the industry is rallying behind multimedia messaging services (MMS), which will make it possible to zap photos and graphics to and from handsets, just as text messages are sent in their billions already. But is this just more hype?

Perhaps not. Unlike 3G, MMS is not a giant technological leap forward, but is feasible on today's networks. This month, Vodafone D2 in Germany and CSL in Hong Kong were the first to launch MMS; other operators will follow this summer. And unlike WAP, there is evidence of demand for MMS. Phones with built-in digital cameras are hugely popular in Japan and South Korea, where MMS-like services are already available. In Europe, research consistently shows that the ability to take pictures with a handset and send them to other people is something that people want and will pay for. Phones with colour screens are already selling well.

MMS also differs from 3G and WAP in that sending pictures and photos is an easily understood service, not a complicated-sounding technology. It follows logically from text messaging, which has been a runaway success. And since MMS is based on Internet standards, it will be possible to send messages between phones and PCs. That means there will be no need to wait for a critical mass of MMS handsets.

Even so, the operators still have work to do. Simon Buckingham of Mobile Streams, a consultancy, notes that, although MMS handsets are available already, not all the necessary infrastructure is yet in place. Another danger, says Ben Wood, an analyst at Gartner, is that MMS handsets and infrastructure from different vendors will not work together smoothly, and users will choose to stick with plain old text-messaging. The final details of the MMS standard will be ironed out in industry meetings over the next few weeks.

Charging ahead

There is also the question of how MMS messages should be priced. Some operators want to charge a variable amount depending on the size of the message; others believe a fixed price per message, as is now charged for text messages, would be less confusing. Vodafone D2's service is free until the end of July, after which each MMS message will cost *euro*0.39 (35 American cents), roughly the price of a postage stamp. Telenor, a Norwegian operator that will launch MMS on May 1st, is expected to charge around *euro*1 per message, about ten times as much as for a text message.

Forecasts of future MMS traffic vary widely, but nobody expects it to replace text messages. Instead, says Mr Wood, people will use MMS on special occasions, to send birthday greetings, or photos while on holiday instead of postcards. Operators also expect it to

be used to deliver screen logos, pornography and advertising. This means that MMS will generate extra revenue on top of text messages, allowing operators to make up for declining text revenues. Handset makers and operators also hope that MMS will spur users to upgrade to fancier phones and pricier payment plans. Oddly, it could even boost voice revenue; research by Nokia, the world's largest handset maker, suggests that 70% of person-to-person MMS messages generate a voice call in response.

The big losers in all of this are likely to be those in the chemical-photography industry, as MMS accelerates adoption of digital photography. It is true, notes Niklas Savander of Nokia, that consumers only have so much disposable income to spend on their mobile phones every month. But MMS, he suggests, will enable handset makers, mobile operators and service providers to cannibalise spending on cameras, film and processing.

In short, there are good reasons to expect MMS to succeed, even though it is unlikely to be widely adopted until 2003 or 2004. Beyond that, the industry hopes it will act as a stepping-stone to more advanced 3G services. But though MMS is clever, expecting it to rescue the industry singlehanded may be asking a bit much.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Canal Plus

Rebels with a cause

Apr 25th 2002
From The Economist print edition

Vivendi's problem child needs shaking up, but will fight change all the way

IF YOU cannot take criticism, do not buy a television business with an irreverent spirit. Even before Jean-Marie Messier, head of Vivendi Universal, faced a hail of complaint at the media giant's annual general meeting on April 24th, he was being pilloried daily on his own pay-TV channel, Canal Plus, and jeered by its staff on the streets. Shareholders were cross because of Vivendi's general underperformance, but the creative minds at Canal Plus were livid over the sacking last week of Pierre Lescure, the channel's boss. Of all the difficulties at Vivendi, sorting out the rebellious offspring at Canal Plus, with its powerful French cultural patrons, is the most pressing—and the most prickly.

Mr Messier is under pressure to fix a raft of troubles at Vivendi, among which are: its strategic incoherence; its 63% stake in Vivendi Environnement, an environmental-services business, which he had promised to reduce; disagreements over stock-option schemes; and big Internet losses. But Canal Plus, which Vivendi bought in 2000 at the same time as Universal Studios and Universal Music, is the single biggest drain. Operating losses in the first quarter of this year were *euro*64m ($56m).

Canal Plus's defiant nature makes it harder to turn round. Staff at the pay-TV operator, which finances the majority of French films, are still dismayed at the firing of its spiritual godfather. Many regard Mr Lescure's departure as the triumph of American commercialism over French artistic expression. French film stars rushed to express support for Mr Lescure. The audio-visual regulator summoned Mr Messier to explain himself. “Les Guignols de l'Info”, a satirical show aired on Canal Plus, captured the mood, depicting Mr Messier as a besuited nerd who taps his feet only to the beat of the stockmarket, and Mr Lescure as the epitome of savvy, music-loving cool.

Mr Lescure's replacement, Xavier Couture, faces a rough ride. As outgoing head of sport and the channel controller at TF1, France's top commercial TV channel, Mr Couture is seen by his detractors as a ratings-grabber. He is an unapologetic enthusiast for reality-TV shows. On his first day at Canal Plus, protesting staff tried to stop him entering the building. “We predict unhappy days ahead for Mr Couture,” says Gérard Chollet, head of the biggest staff union at Canal Plus.

Moreover, Mr Couture has more experience picking winning TV shows than restructuring companies. Yet firmer operational control is what Canal Plus needs. “There's nothing wrong with the business model,” says Christopher Dixon of UBS Warburg. “He just needs to run a tighter ship.” Within France, Canal Plus is profitable. But it is losing subscribers, thanks to competition in pay-TV. Its margins are falling due to escalating programming costs for films and sport. And it has no clear plan for converting subscribers to digital.

Outside France, Canal Plus is losing money, above all in Italy. Telepiu, its Italian operation, has not made a penny since Canal Plus bought it in 1997; it makes up the bulk of the operating losses. It has been battered by a mix of piracy, competition from free television channels, and the rising cost of football TV rights. Canal Plus hopes to plug the Italian drain by merging Telepiu with Stream, a domestic pay-TV rival; the regulators are expected to rule on this next month. Even so, Morgan Stanley, an investment bank, does not expect Telepiu to break even until 2004.

Since it was Mr Lescure who took Canal Plus into Italy, and presided over years of losses, his departure has been greeted more warmly outside France—even, initially, by a share-price rise. “As a manager, he was incompetent,” says one Wall Street analyst. Mr Lescure was too close to his baby to take the hard-nosed decisions needed to turn Canal Plus round. But the nature of his departure will not make it any easier for his successor.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

McDonald's in France

Delicious irony

Apr 25th 2002
From The Economist print edition

A nation of burger-munchers

A FEW days before the first round of the French presidential election last week, José Bové, self-styled leader of France's anti-globalisation brigade, was sentenced to three months in jail for trashing a McDonald's restaurant in the French town of Millau in August 1999. Before the trial, he boldly asserted that “the French people...are with us in this fight against junk food and against globalisation.”

Are they? In fact, the French can't seem to get enough of their “McDos”, as the icon of American capitalism is known locally. McDonald's is opening 30-40 new outlets a year in France, where it now has some 900 restaurants—more per head than most of its European neighbours, including Germany, Italy, Spain and the Netherlands. (Britain is still just ahead, but the company opened there earlier.) McDonald's now claims to be the leading restaurant chain in France. Its French sales and profits were both up by over 9% in 2001—a year when the company saw global net profits fall by 17%.

Still, McDonald's is making an effort to soothe local sensitivities. Last year Ronald McDonald, the firm's Disneyesque mascot, was replaced in its French advertising by Asterix, a French comic-strip character who stands for Gallic individuality and symbolises local resistance to imperial forces. Indeed, with his distinctive moustache, the plucky Gaul even looks a little like Mr Bové. The final insult?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Face value

Making up for lost time

Apr 25th 2002
From The Economist print edition

Werner Wenning needs a new remedy for Bayer, a German drug giant

THE new boss of Bayer has had a good week. Not only did Werner Wenning become chairman of the German drug and chemicals firm in which he has spent his entire career, but his favourite football team, Bayer Leverkusen, also secured a 2-2 draw against Manchester United in the first leg of the semi-final of Europe's Champions League. The one success reinforces the other: Bayer Leverkusen is a wholly owned subsidiary of Bayer, bringing pleasure to the soccer-loving Mr Wenning, and considerable value to his company as a marketing tool for Bayer's brand and products. It is a rare man whose private and professional passions so neatly coincide.

Mr Wenning is equally keen on Bayer's commercial prospects, but outside observers give these longer odds of success. Bayer is one of the few companies that makes drugs while running other businesses—in its case, three: chemicals, polymers and agrochemicals. Rivals such as Aventis and AstraZeneca have thrown off their chemicals heritage to focus on pharmaceuticals, and prospered in the process. Shareholders have long called on Bayer to do the same, but any such move was resisted by Mr Wenning's predecessor, Manfred Schneider.

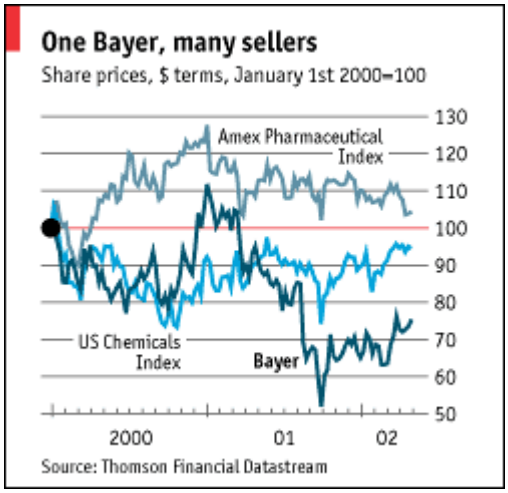
Last year, however, Bayer was shocked into change by the withdrawal of its blockbuster cholesterol-lowering drug, Baycol, because of its lethal side-effects when misprescribed. Gone is the old top-down, finger-in-every-pie management structure. Bayer has since reorganised its business segments into four main legal and operational entities, each with a management board that reports to the five-member executive board of a new holding company, led by Mr Wenning.

The new chairman has high hopes for this overhauled structure. Transferring control over operational details to the management boards should free the holding board to deal with bigger strategic issues, such as partnerships. But with control comes responsibility: Mr Wenning wants Bayer's executives to become more entrepreneurial and accountable for their role in increasing the company's value. He has set ambitious targets: the chemicals division is to achieve a return on sales of at least 12%, polymers 15% and agrochemicals 20%, by 2005 at the latest.

Bayer is already doing deals to boost its chances. Mr Wenning hopes to complete the *euro*7.3 billion ($6.5 billion) acquisition of Aventis CropScience by next month. Bayer has also put several units, including its fibres business, on the block and has announced plant closures and other measures to cut costs by *euro*1.8 billion a year by 2005. With such moves afoot, agrochemicals is best-placed to reach Mr Wenning's targets. More change will be needed before polymers and chemicals are back on track.

Mr Wenning, who was Bayer's chief financial officer before taking the helm, sees his main goal as bringing Bayer's lowly market capitalisation closer into line with its intrinsic value. (The company is worth *euro*28.5 billion, or 94% of its annual sales—a much lower ratio than that enjoyed by American drug companies.) Part of that job is public relations, not one of Bayer's strongest suits. Mr Wenning is widely considered to be more approachable and co-operative than the daunting Mr Schneider. He is one of the few top executives who actually enjoys talking to analysts, and looks forward to his role as Bayer's public face. This is just as well, given

the company's recent listing in New York, and its growing exposure to an American investor base that does not take kindly to neglect.



Harsh medicine

Mr Wenning's most pressing task is to revive Bayer's ailing drug business. This forms part of the firm's new health-care group, along with diagnostics, consumer care (which includes aspirin—first developed by Bayer—and other over-the-counter remedies), protein-based medicines and animal health. When Baycol was pulled from the market last August, the company lost a money-spinner that had been expected at its peak to generate more than *euro*2 billion in annual sales.

On the bright side, the firm still has a few solid earners, such as Cipro, an antibiotic used to treat anthrax, and one of the best-known brands in the business. Its early-stage pipeline, with 32 drugs in pre-clinical development through to phase-two trials, is highly regarded, and its alliances with biotechnology firms such as Millennium and Curagen may one day bear fruit. But apart from a drug for impotence, which it hopes to launch with GlaxoSmithKline later this year, Bayer's new-drug cupboard is poorly stocked until 2006 at the earliest.

To bridge this gap, Mr Wenning is looking for a deal. His ideal partner would already have lucrative drugs on the market, as well as a strong salesforce in America. Buying a drug rival is out of the question; given its paltry market value, Bayer cannot afford any desirable candidates, most of which, such as Wyeth (formerly American Home Products), are several times its worth. Even Mr Wenning's plan for a partnership in which Bayer has a majority stake looks tricky.

So Bayer is instead looking at smaller fry that will not bring the revenues or resources to solve its problems, but will at least buy the company breathing-space with investors. Unfortunately, some obvious catches, such as Boehringer Ingelheim or Akzo Nobel, have reportedly refused to bite. If he were willing to take a minority stake, or to sell Bayer's pharmaceutical division, Mr Wenning would undoubtedly find more potential partners. But for all his famous flexibility, he is unwilling to go this far.

Mr Wenning says that if Bayer fails to fix a troubled part of its business, he is prepared to divest it or shut it, even if it lies at the firm's heart. He insists that the one Bayer tradition that truly matters is success. As hard as it might be, he and his company should not allow pharmaceuticals to be an exception.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Boeing v Airbus

Towards the wild blue yonder

Apr 25th 2002
From The Economist print edition

Airbus is producing a super-jumbo, the A380. Boeing is going for speed rather than size with its Sonic Cruiser (above). Who's on the right flight path?

Get article background

THE earth-moving machines have started work next to Blagnac airport near Airbus's headquarters on the outskirts of Toulouse. They are preparing the foundations of a giant aircraft hangar that will be one of the largest covered spaces in Europe. This is where the world's biggest airliner, the A380, will start to be assembled next year, for a maiden flight towards the end of 2004. Metal is already being cut for parts of its giant body in Airbus factories in Germany and France.

By the end of next year, enormous barges will bring the first fuselage sections and giant tail-fins up-river from a specially built port terminal near Bordeaux. After their 100km (62-mile) river journey, the parts will be transferred on to purpose-built road trailers, over 50 metres long, which will carry them by night a further 230km along a specially widened road to Toulouse. Many villages along this road, just north of the foothills of the Pyrenees, have suddenly found that Airbus is prepared to pay for the by-passes they have long craved, because this is cheaper than the alternative of raising every bridge on the nearby motorway.

These are the first manifestations of a $10.7 billion programme to develop a rival to the Boeing 747, the 416-seater jumbo that has enjoyed a monopoly in big airliners for over 30 years. Airbus, which opened for business in 1970—the year of the jumbo's first commercial flight—has now caught up with Boeing in market share. The A380 will enable it to tackle its great rival right across the product range.

Airbus's decision in December 2000 to proceed with a 555-seat super-jumbo sets it head-to-head with Boeing's 747 for the first time. Boeing will tweak the jumbo here and there, improving its performance, but its big effort is going into an entirely different aircraft, the 250-seat Sonic Cruiser, which flies at 98% of the speed of sound. Championing speed rather than size suggests that Boeing thinks most future growth will come from frequent point-to-point flights, rather than those that go through the big hubs. Airbus, by contrast, still sees a healthy market for a relatively low-cost super-jumbo to connect the world's biggest international airports.

Both companies accept the consensus view of the air-travel market—a tripling over the next 20 years. But they disagree on how the demand will be met. Boeing's projections are for a total demand of 18,120 new planes, of which only a third will be twin-aisled (ie, large). By contrast, Airbus thinks the market will consist of 14,670 planes, 20% fewer than Boeing. But the European manufacturer reckons that almost half of those will be twin-aisled.

At first sight the two companies could not be taking a more different view of the market. Boeing believes in “fast and frequent”, as deregulation allows airlines

Boeing believes in

to fly where they want. Airbus is counting more on the bulk capacity that has served the industry well over the past 30 years, when governments have restricted routes and flights. Airbus believes that fragmentation from deregulation will be countered, to some extent, by capacity constraints at airports. These will encourage the use of fewer, larger aircraft to move the same number of passengers.

“fast and frequent”, while Airbus is counting more on bulk capacity

Nevertheless, Charles Champion, the (aptly named) Airbus manager in charge of the A380 programme, dismisses talk of a black-and-white polarisation of point-to-point versus hubs. “We would hardly have invested all this money on the basis of a point of theology,” he says. “The growth will be a mixture of the two.”

The situation is not without irony. The Boeing jumbo was designed originally as a military freighter, which is why it has a bulbous front (to enable tanks to enter through the nose). But Boeing lost the military contract to a rival, and the decision was made to adapt the prototype for civilian use. Boeing never really thought it would catch on for passengers; the company imagined its real potential would be as a big freight aircraft for the burgeoning air-cargo business. It saw the jumbo as a stop-gap until supersonic flight became the norm for mainstream long-haul flying.

The irony is that Boeing, despite the glorious success of that stop-gap jumbo, is once more focusing on a high-speed solution (albeit just below the troublesome sound barrier). This time it is Airbus (which was born of Anglo-French co-operation on the supersonic Concorde) that wants to emulate the success of Boeing's ugly-duckling-turned-golden-goose.

Flight past

The jumbo crammed in more than twice as many passengers as other contemporary jets, and it also offered lower operating costs and a longer range. It went on to usher in an age of cheap, mass air travel. More than any other product, arguably, the 747 shrank the world. Boeing has sold over 1,300 jumbos, worth over $200 billion, and they are still rolling off the assembly line in the company's Everett factory north of Seattle, at the rate of almost three a month.

Airbus has been thinking about making a rival to the jumbo for at least a dozen years. In the early 1990s, the partners in what was then the Airbus consortium did a joint study with Boeing and considered pooling their resources for a so-called Very Large Aircraft (VLA). The VLA project, however, ended in acrimony: Boeing said that it showed there was not a big enough market to justify development even of a joint product. Airbus, on the other hand, said the break-up was caused by failure to agree over intellectual property rights and over who would build what.

Airbus believes there is a market for around 1,500 A380s over the next 20 years, about 10% of the total number of jet aircraft (excluding smaller regional jets) that it forecasts will be needed. It reckons the market for several versions of its super-jumbo (possibly going up to 800 seats) will be worth $340 billion in total. Boeing claims there is a market for no more than 500 super-jumbos—hence its reluctance to launch a completely new product of its own. Its bosses like to quote Napoleon's saying about never interrupting your enemy when he is making a mistake. Instead, it has tried (so far without success) to interest airlines in radically upgraded versions of the venerable 747.

380 degree legroom

Last year, it distracted attention from this failure by unveiling the glamorous new Sonic Cruiser, designed to fly about 20% faster than today's big jets, so cutting an hour off a transatlantic flight. Boeing claims it will do this at no extra cost. High (and expensive) fuel burn has always been seen as the main obstacle to such performance. But the company is now having to face up to the fact that it will take some time to develop and prove the necessary technology.

Until recently, Boeing was claiming that the new aircraft—which had been greeted enthusiastically by many airlines—would be ready to go into production in 2006. But the company now admits that the date has slipped back to 2008. Randy Baseler, vice-president of marketing for Boeing Commercial Airplane Group, says the delay is due to technical

considerations. It turns out that over 60% of the Sonic Cruiser would have to be built of composite materials (considerably higher than the proportion on the A380) rather than aluminium. It would also need completely new engines, rather than adapted existing ones, in order to be sufficiently light and economical.

The delay has served to feed the scepticism of those in the industry who think that the Sonic Cruiser is a mere “paper aeroplane”, whose launch had more to do with public relations than with aerodynamics. Paper or not, Boeing is milking the image of the futuristic delta-wing design with huge posters on, for instance, the road from central London to Heathrow airport. It is, the posters proclaim, the “future of flying”.

Boeing could be under-selling itself there. It also has on its drawing board a so-called “blended-wing-body” aircraft, and it is testing real scaled-down models with the help of NASA, America's space agency. This flying wing would be much more revolutionary than the A380 or the Sonic Cruiser. It would be like a giant stealth bomber, with the whole fuselage integrated with the wings, rather than a tube with wings sticking out. Passengers would sit in a cabin resembling a large amphitheatre. The killer attraction of such an aircraft would be its smooth aerodynamic profile, leading to low operating costs. But that is about ten years in the future.

Back to the present

Meanwhile, Boeing still insists that the Sonic Cruiser's time will come. It sees air traffic fragmenting away from the main hub airports, pointing to the fact that international air travel is growing at 8% a year, faster than traffic at most main hubs. This fragmentation started in international travel across the Atlantic and is now spreading into Asia, where Airbus aims to sell most of its A380s. Singapore Airlines and Qantas are early customers, but neither Cathay Pacific nor Japan Airlines has yet ordered the new plane—which should be a source of some anxiety in Toulouse.

Airbus does not totally disagree with Boeing about fragmentation—only about its extent. The European company thinks that, with the expected tripling of air traffic over the next 20 years, the sheer volume of traffic on some trunk routes will call for bigger aircraft. One Airbus director, Adam Brown, loves to point out that by 2017 the annual increase in air travel will be greater than total air travel was in 1970, the year the jumbo was launched.

Airbus does not totally disagree with Boeing about fragmentation from the main hub airports—only about its extent

But Mr Brown also has less rhetorical arguments. The key attraction of hub-and-spoke operations is their cost. They allow airlines to serve many destinations with fewer and bigger aircraft than if each were served directly. Boeing's original 747s offered savings of around one-third in direct operating costs per seat-mile. Airbus claims that the A380, in turn, will be 15-17% cheaper than the latest 747.

Yet that may not be enough to guarantee success, for two reasons. Although Airbus is probably right about the volume of traffic and the attraction of lower costs, this advantage could be partly undermined by a Sonic Cruiser siphoning off the lucrative business traffic that provides most of the airlines' profits. Then there is Boeing's ability to compete against the Airbus super-jumbo with the trusty old 747: this is now a cash cow, and Boeing has the option of cutting its price in order to offset the new competitor's superior economics.

The Airbus super-jumbo got the final go-ahead in December 2000, but only after 50 aircraft had already been ordered by five different airlines. To date, the company has received 97 orders or binding commitments, enough to keep the Blagnac assembly line busy from 2006 until 2009. It expects to pull in more orders, but only at a rate of one deal a year, until the aircraft is about to enter service. By then it hopes that airlines flying in competition with those about to get their A380s will be rushing to buy their own.

Airbus is confident that introducing such a large aircraft will be no problem at big airports. It fits into existing parking areas, and can be unloaded and loaded in about an hour and a half, just a shade longer than it takes to turn round a Boeing 747.

The nerve-racking thing for Airbus's bosses (and for its shareholders) is the sheer size and time-scale of the project. As Mr Champion points out, an aircraft has a product life of around 30 years. If you get something wrong, the consequences can be severe and enduring. He comforts himself that Airbus is

nearly half way to reaching the 230 aircraft that it must sell in order to get its money back.

The company has had some controversial help in getting this far. The British, French, German and Spanish governments have chipped in $4 billion in development loans repayable from sales revenues. But this state aid seems to fall within the terms of a bilateral agreement between Europe and America, signed ten years ago, under which European “launch aid” (as it is known) given to Airbus would not exceed one-third of its development costs, and American aid to Boeing would not top 3% of that company's revenues.

"My body's bigger than yours”

Future take-off?

There are two great challenges yet to be met if the momentous A380 project is to succeed. One is technical, the other managerial. The essence of the technical challenge is to build an aircraft that will rely more than any other civil jet so far upon the use of lightweight composite materials. Airbus is still cagey about numbers, but it admits that composites (which mean various kinds of carbon fibre and some polymer plastics) will account for 45% of the aircraft's parts.

The most exciting of these new materials is called Glare, originally invented in America but developed for industrial use in the Netherlands and Germany by Fokker, an old regional jet company that was owned by Daimler-Benz before it went bust. A technology subsidiary of the company survives to this day and is a partner with Airbus in the A380 project.

Glare is a sort of sandwich in which aluminium foils alternate with others made of glass fibre impregnated with an epoxy adhesive. The resultant material is lighter, tougher and more fire-resistant than straight aluminium, and it will be used on the upper parts of the aircraft's fuselage. Test panels have been flying on a specially adapted small Airbus for the past three years.

Composites are also being used in more fundamental parts. The giant centre wing box that ties together wings and fuselage is being made largely of carbon-fibre-reinforced plastic, rather than aluminium. It is the size of a London double-decker bus lying on its side. Carbon-fibre composites have been used for structural parts in aircraft before, notably for floor beams in the Boeing 777. But Airbus is pushing the technology much further. In mid-March, Mr Champion's team took another big decision: to discard aluminium in favour of carbon fibre for the wing ribs. Such a radical application of new materials is a challenge, but Airbus has been a leading pioneer in the use of carbon fibre in its aircraft for over 20 years and is confident that all will be well.

Even as the A380 is transforming Airbus's product range, it should change the company in other ways too. It is the first product to be launched since the old consortium evolved last year into an integrated company. The wing factories in England, and the tail-fin and fuselage factories in Germany and France, which used to be quite separate, were all transferred to Airbus.

In the old days, consortium members made their profits by supplying parts of aircraft that were assembled in Toulouse. Nobody knew how much or how little profit was being made across the system. Now that has been radically changed. Wings will still be made in England, because that is where the expertise lies. Similar centres of competence exist for cockpits (at St Nazaire in France) and so on. But the way that the A380 project is being managed establishes a new way of working that overrides the old national, work-sharing traditions.

The leaner, more commercial working practices on the A380 could help to convert the former consortium into a successful business

Transnational groups have been set up to focus on various aspects of the new aircraft's production. The group working on the wings has not only British experts (reflecting the home of wing expertise) but also French and Spanish engineers, whose role is to challenge accepted ways of doing things. Similar teams have been working on other critical aspects of the aircraft's design. The number of daily company commuter flights between the big Airbus production sites and Toulouse, the headquarters, has gone up from one a day to three, as A380 work is integrated across the company. For the first time at Airbus, a single individual (Mr Champion) is responsible for keeping a project on time and on budget.

The leaner, more commercial working practices on the A380 could help to convert the former consortium into a successful business. The omens look good, despite the slump in aircraft demand that may last until 2004. Airbus's order-book rivals that of Boeing—at $45 billion last year, it is equal to more than twice its turnover. It has so far been virtually absent from the fastest growing sector of the market, the low-cost airlines, and they are the biggest buyers of aircraft at the moment. But that could soon change: Airbus is the current favourite to win an order from easyJet, a leading low-cost carrier, for around 75 of its single-aisle A320 family.

In the battle of size against speed, the outcome is probably not going to be a question of Boeing winning and Airbus losing, or vice-versa. Most of the competition between the two companies will continue to be in smaller aircraft (such as the Boeing 737 against the Airbus A320 family, or the Boeing 777 against the Airbus A330 and A340). To some extent, both the A380 and the Sonic Cruiser will be niche models, in markets small enough for it to make sense to have only one manufacturer's product. This epic contest could yet turn out to have no loser.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Share options and executive pay

Coming clean on stock options

Apr 25th 2002 | NEW YORK
From The Economist print edition

Is there no accounting for them?

Getty

OF ALL the accounting problems highlighted by the collapse of Enron, the one that would seem easiest to put right is the reporting of employee share options. These days they make up a huge slice of pay, particularly for senior management. Last year, stock options accounted for 58% of the pay of chief executives of big American companies. Yet the cost to the company of providing these options is typically not deducted as an expense when it calculates its profits. As a result, reported profits are misleadingly high. Although the extent is debatable—the Federal Reserve reckons that it comes to about 2.5 percentage points a year between 1995 and 2000—the overstatement is not in doubt. So, what could be simpler than to require companies to treat share options as an employment cost?

A fierce lobbying effort by the world's biggest companies is under way against attempts to make this happen. It will probably succeed, just as it did when similar reforms were proposed in 1994. A bill introduced by Senators John McCain and Carl Levin, which seeks to remove the tax deductibility for options not counted as expenses, has little chance of succeeding.

Currently, firms count options as a cost when they calculate their profits for the government, but not for their shareholders. The Financial Accounting Standards Board, which sets the rules for American accounting, seems unlikely to act any time soon. Its chairman is to step down at the end of June, and its future shape and status are both in doubt in the light of Enron. A move to introduce a charge for options under International Accounting Standards, the chief international alternative to America's accounting principles, also faces intense lobbying, including from the European Commission.

Principles v greed

Those who oppose the expensing of share options thus seem to be winning. What are their arguments, or are these little more than a fig-leaf to cover executive greed?

Their first point is that the accounting treatment of options did not play a significant role in Enron's collapse. True, up to a point, but beside the point. Compared with the use of off-balance-sheet vehicles, the distortion to Enron's profits from non-expensed share options was small. Hardly a reason not to make a sensible accounting change, though, and if Enron's failure provides the spur, fine.

A more interesting argument is that the theory of efficient financial markets does away with the need to expense options. Efficient-market theory, at the heart of so-called modern financial economics, argues that a share price accurately reflects all available information relevant to the value of a company. Thus, provided all the information necessary to calculate a firm's true profits is disclosed, it does not matter what the firm reports as its profits. Even if a firm ignores the cost of options when calculating its profits, the market will not.

One problem is that economists have identified weaknesses in the efficient-market theory. Arbitrage does not work as it should. Investors who know the true value of a share do not necessarily drive out investors

who are ignorant. The psychological biases of investors appear to affect share prices. Markets, in other words, are not truly efficient—and shareholders may be misled by reported profits that exclude the cost of options.

On the other hand, if markets really are inefficient, those who fear that investors might turn against the use of share options once they are expensed may also be right. Options are said to be particularly useful as an incentive for start-up companies that have little cash but want to give employees a big carrot to make the firm succeed. Expensing options may dent profits severely or (more likely) increase losses at a time when start-ups are struggling to succeed. This could make it harder to raise the capital that small firms need to grow.

On the other hand, start-ups tend to have more sophisticated investors who are less likely to be misled by accounting. What is more, the process of going public provides an excellent opportunity to explain to investors what the accounting numbers really mean. On balance, if markets are inefficient, the benefits of expensing options probably outweigh the costs.

The National Venture Capital Association argues that expensing options would actually make accounting profits more misleading, however. First, a cost would be shown for many options that are never exercised. This is certainly true if the share price falls below an option's pre-determined strike price. At the very least, though, issuing an option involves the risk of a cost. And, exercised or not, the option has a value to those who were awarded it, in the same way that a lottery ticket has value. Accounting for this is tricky. But since most options are eventually exercised, the cost should still be charged against profits at some point.

Second, says the association, the theoretical problems of valuing options means that any number expensed in the accounts is “arbitrary at best”. Again, there is something to this. Work on the impact of share options by Smithers, a British research firm, uses three different valuation methods. One is the value of options issued during a given accounting year: this can be calculated using the Black-Scholes model of option pricing. Another is the cost of all outstanding options if they were “immunised” by the company buying identical options in the market. The third is “full cost”: the change in the value of all outstanding options, plus the cost of those exercised during the year.

These three methods yield rather different results. In 2000, according to Smithers, the first suggested that charging for options awarded would have reduced reported profits amongst 325 large American firms by 17.1%. The second method would have reduced them by 21.6%. The full-cost method would actually have increased reported profits, by 5.1%, because falling share prices sharply reduced the value of outstanding options, particularly for technology firms that were big users of employee share options.

Robert Merton of the Harvard Business School, who won a Nobel prize for economics in part for his contribution to options-pricing theory, considers that options can be valued quite well enough to be expensed. And although there is room for debate over which pricing model is best, he also points out that the degree of precision for option pricing is orders of magnitude better than for valuing any number of things that are now expensed for accounting purposes. Think of the challenge of accurately assessing the useful economic life of a factory, machine or computer for purposes of depreciation—calculations that can have a huge impact on reported profits.

Underlying all these arguments is a fear that expensing options will discourage the use of a wonderful means of providing incentives for employees, especially managers, to maximise shareholder value. Actually, the present accounting treatment may discourage the use of better incentives, such as paying people in shares rather than share options. Brian Hall of the Harvard Business School points out that share options are a “fragile” incentive, in that they pay out unevenly: employees get nothing below a certain share price, but lots above it. Holding shares directly is a far smoother form of incentive. Share schemes are easier to understand, and they encourage managers to act more in the interests of shareholders.

All the same, awards of share options by firms dwarf awards of shares—partly because shares are expensed against profits, while share options are not. The lack of parity between these different forms of incentive creates huge distortions in the way people are paid. And that, says Mr Hall, may be the biggest cost of all from not expensing options.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Mizuho Bank

Undispensable

Apr 25th 2002 | TOKYO
From The Economist print edition

A fine merger yields one fine mess

AP

Stay calm, sir, your money must be in here somewhere

IT WAS not completely ready. It is not sure what has been causing all the problems. And it does not know quite how much money might be involved. So, more or less, the president of Mizuho Holdings, Terunobu Maeda, admitted in parliament on April 24th, more than three weeks after computer glitches had caused the official launch of Japan's (and the world's) largest bank to go spectacularly wrong. Some 7,000 cash machines were paralysed, 60,000 accounts were debited twice over for the same transaction, and millions of fund transfers for utility and credit-card bills went unpaid.

Mizuho is still struggling to fix flaws in its computer systems that have disrupted businesses across Japan. By April 22nd Tokyo Gas, the biggest gas company, was missing ¥2.2 billion ($16.9m) in payments. The top telephone company, NTT, which is looking for ¥12.7 billion, now sends customers receipts marked with asterisks in place of figures, since it does not know whether, or how much of, about 760,000 bills have been paid. Smaller companies complain of missing wages. Mizuho's troubles have also alarmed cash-strapped companies that count on day-to-day payments to stay afloat, as well as thousands of consumers who fear repercussions if their credit-card bills go unpaid.

Why, with nearly three years to prepare, did the launch go so wrong? One reason was that the three banks that merged to create Mizuho—Dai-Ichi Kangyo Bank (DKB), Industrial Bank of Japan (IBJ) and Fuji Bank—spent so much time squabbling over who should take charge of integrating the three systems. Each bank had a different systems supplier: Fujitsu in the case of DKB, Hitachi for IBJ, and IBM for Fuji Bank.

At first, the banks picked DKB's system, but they then decided to connect the three systems using “relay” computers. It was a bug in the connectors that caused cash machines to jam. Bad judgment and shoddy data-processing and programming led more money to go astray. Complacency also played its part: utility companies that asked Mizuho to test debit systems before the launch were told this was unnecessary. Kenichiro Nakamura at Cap Gemini Ernst & Young, a consultancy, reckons that it will take Mizuho at least another six months fully to fix its computer systems.

The politicians are livid. They fear that the fiasco will erode what little faith remains among depositors in Japan's financial system, which is riddled with debts. They have grilled Mizuho's executives in parliament and threatened penalties. The bank had embarrassed Japan internationally, said Shintaro Ishihara, governor of Tokyo, which is Mizuho's largest depositor. “Maybe it wouldn't be so bad if it was forced out of business.”

Next month the Bank of Japan and the Financial Services Agency (FSA), which is under attack for not supervising the merger more carefully, start a close inspection of the bank. Depending on the results, the FSA might slap a business-improvement order, or worse, on Mizuho. Heads are expected to roll.

In an emergency move on April 25th, the Bank of Japan extended the interbank settlement system by an hour, for Mizuho's benefit. The bank's fate now depends on how it survives April 30th which, coming between holidays, is usually the year's busiest day. Mizuho expects 9m account transfers and 3m wage payments—one-third the monthly transaction volume—that day. If Mizuho botches many more

transactions, depositors might start pulling their money out in droves.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Japan's economy

The bottom line

Apr 25th 2002 | TOKYO
From The Economist print edition

Does better news for the economy mean great news for corporate earnings?

Get article background

OVER the next few weeks, a depressing stream of figures, as companies release their accounts, will show how badly they did in the financial year that ended in March. All the same, most of the chatter among analysts in Tokyo is already on the year ahead.

In the latest quarterly *Tankan* survey, Japanese manufacturers forecast an astounding 43% rebound in profits this year. A weaker yen and signs of life in America promise to lift exports, just as inventories that are restocked suggest a separate boost to output. Although non-manufacturers have much less to gain from an export-led upturn, they too are counting on a 23% bounce in profits. If such forecasts prove correct, Tokyo's share prices could put far behind them the 18-year lows that they hit only in February.

It is tempting to dismiss the forecasts out of hand, particularly since only mild economic growth, at best, is expected this year. Yet Richard Jerram, chief economist with ING in Tokyo, has looked at firms' previous forecasts and reckons that, on average, they are usually unbiased this early in the financial year. The question, therefore, is how these bottom-up forecasts stack up against the expectations of macroeconomists, who expect flat GDP and sales that will generate profits growth of closer to 10%. The disparity hangs largely on two factors: Japanese firms' high level of fixed costs, and disputes over the degree of corporate restructuring going on.

Mr Jerram and others point out that, thanks to high fixed costs, a small increase in sales can have a huge impact on profits. Goldman Sachs, for example, reckons that most Japanese firms break even at around 90% of current sales, with any additional sales dropping quickly through to the bottom line. As a result, slight differences in sales forecasts lead to wide swings in expected profits. Goldman expects profits growth of 10% this year, based on a 1% decline in overall sales. But if sales instead rise by 1%, the investment bank says profits will grow by 29%, far closer to Japanese companies' forecasts.

The obvious caveat is that high fixed costs make it easier to spill more red ink in the event that sales forecasts are not met. Another reason for caution is that, if profits are indeed so sensitive to sales growth, then Japanese firms' expectations about what restructuring can deliver are possibly way off.

One company can indeed save a lot of money by slashing its workforce. But if they all do it, then a rise in the number of laid-off workers will inevitably harm the overall level of sales in the economy, which in turn will offset much of the cost reductions. The entire Japanese economy cannot boost short-term profits by sacking workers—but that, it sometimes seems, is what many companies think they can do.

A mild rebound in sales this year could yet give a reprieve to corporate Japan, providing some breathing-room to restructure and pay debts. But if it failed to use this opportunity, it would not be the first time.

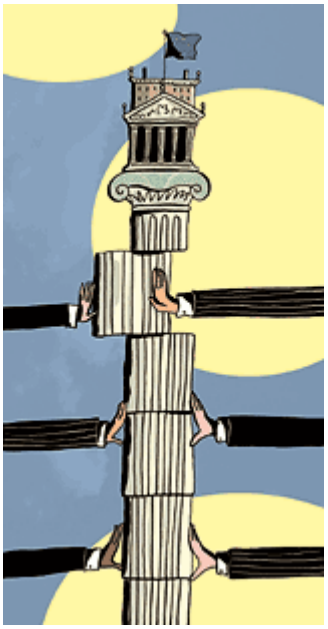
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial services in Europe

How to protect investors

Apr 25th 2002
From The Economist print edition

A tug-of-war over regulating Europe's investment services



AS A veteran of European Union bureaucracy, Alexandre Lamfalussy knew he could not do everything at once when he was asked to report on the creation of a single market in European financial services two years ago. Mr Lamfalussy and his committee of “wise men” accordingly decided to focus on reform of specific EU legislation on financial services. A revised version of the EU's investment-services directive (ISD) is, alongside new directives on prospectuses (documents that come with the sale of new securities) and on market abuse (such as insider trading), a priority of the Lamfalussy effort.

There is progress on rewriting the ISD. On April 22nd representatives of the financial-services industry, stock exchanges and regulators gathered in Brussels for a second and final round of talks about the directive's proposed revision. Last week the Committee of European Securities Regulators, a group of national securities regulators that advises the European Commission on the Lamfalussy reforms, published its proposal for the harmonisation of business rules for investment firms, which fall under the directive.

The existing directive, adopted in 1993 after years of wrangling, was an unhappy compromise. It was supposed to protect investors and to promote cross-border trading, but it is ambiguously worded—failing, for instance, to define the distinction between a retail and a professional investor. It also allows countries to insist that domestic investors buying shares at home go through a domestic exchange. Italy and France still seek to enforce this rule, in an anachronistic gesture against the globalisation of share trading.

Market participants agree that all such ambiguities and restrictive rules should go. But they do not agree on what should take their place. For example, stock exchanges are lobbying for rules to curb big investment banks' practice of matching buy and sell orders in-house, rather than going through an exchange. Euronext, which runs the Paris, Brussels and Amsterdam bourses, argues that this practice, by reducing the volume of exchange trading, renders stockmarkets less transparent and liquid, harming investors.

Morgan Stanley and Goldman Sachs, two investment banks that match many trades in-house, retort that this is mere protectionism on the part of the exchanges. The big banks also object to the directive's proposed requirement that in-house orders must be telegraphed to the broader market before their execution. The banks argue that this might move the markets against their clients.

Retail brokers support the investment banks against any new restrictions on share-trading. Their bigger concern, however, is the new rules on business conduct produced by the committee of regulators last week. They fret about the cost and effort of implementing no fewer than 129 general standards and 140 detailed rules to cover their activities. Some rules, such as the distinction between retail and professional investors, are still contentious, says Angela Knight at APCIMS, the association representing private-client investment managers and stockbrokers in Britain. The committee intends to classify only very large entities as professional investors.

Committee members have already approved the new rules for retail investment. They are still fiddling with rules for professionals, but Fabrice Demarigny, the committee's head, hopes that the whole package will be adopted in June. National regulators have agreed to abide by whatever is adopted.

It is odd that the new regulation for business conduct will be up and running before the revised directive on investment services—which is the framework for all the rules—sees the light of day. The European Commissions's final proposal for the directive is due out by the end of this year. Then begins its tortuous process through the Council of Ministers and European Parliament. The Lamfalussy group has set a goal of 2005 for the directive to be passed and in force. The past few days have seen the quest for a genuine single financial market take a few steps in the right direction, more or less.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The European Central Bank

Defended

Apr 25th 2002
From The Economist print edition

What if the Fed had set interest rates for the euro area last year?

Get article background

EVERYBODY knows that the Federal Reserve saved America's economy from deep recession last year, by slashing interest rates. By contrast, the European Central Bank dithered, cutting rates by too little, too late—further evidence of the bank's incompetence, and of its obsession over fighting inflation even as output fell off a cliff. The evidence? The Fed cut interest rates by a total of 4.75 percentage points last year, to 1.75%. The ECB cut rates by only 1.5 percentage points, to 3.25%.

Do not rush to condemn. A new report* from the Centre for Economic Policy Research defends the ECB, arguing that it did not necessarily err. The report's first conclusion is that the Fed was not unusually aggressive in cutting interest rates last year. Over the past 20 years or so, movements in the Fed funds rate can be broadly explained by the "Taylor rule", devised by John Taylor, now under-secretary for international affairs at America's Treasury department. The rule derives the "correct" interest rate from forecasts of inflation and estimates of the size of the output gap (the amount by which actual GDP falls short of potential GDP).

The Fed's rate cuts in 2001 can be fully explained by a Taylor rule estimated over the past two decades. The rate cuts seemed more dramatic than usual only because the economic slowdown was especially abrupt, thanks to the bursting of the high-tech bubble.

Next, the report considers how the Fed might have acted had it controlled interest rates in the euro zone. Suppose the same Taylor rule that explains American interest rates in recent years had been applied to Europe. The authors conclude that the Fed would not have cut euro interest rates by any more last year than the ECB did, though they might have started to trim a month or so earlier. Rates in Europe did not need to be cut as much as in America, because the economic shock was smaller.

So charges that the ECB is biased in favour of deflation over inflation are unfair. Indeed, for more than half its life the ECB has allowed inflation to exceed the 2% ceiling of its target range. Last year the ECB cut rates even when inflation was above 3% and rising, because it expected a bigger output gap to help bring inflation down.

The CEPR report does not let the ECB off scot-free, however. It advises the bank to take more account of international economic conditions. To the extent that America's economic cycle typically leads the European cycle, American data may help to assess the future path of output and inflation in the euro zone. Second, fiscal policy in the euro area is constrained by the European Union's stability and growth pact, which limits budget deficits, while wages and prices are less flexible than in America. Such rigidities may require monetary policy to play a bigger role.

* "Monitoring the European Central Bank 4: Surviving the Slowdown", by David Begg, Fabio Canova, Paul De Grauwe, Antonio Fatas and Philip Lane. Centre for Economic Policy Research (as part of the Monitoring the European Central Bank series).

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Digital cash

The telephone is the tool

Apr 25th 2002
From The Economist print edition

A cashless society is reaching for its mobile phone

Reuters

It's hardly hands-free

CHARLES COHEN is happy to explain why his digital-cash scheme, called Beenz, bit the dust. The problem, he says, is that hard cash is symmetrical, digital cash is not. You expect a $5 bill to buy $5-worth of goods: but digital cash has costs that must be recovered. So $5-worth of Beenz, Mr Cohen's online currency, could not logically buy quite as much. Hence the failure of the Beenz business model. Sobering stuff at the Digital Money Forum, a gathering in London of eggheads and entrepreneurs, whose goal is to transform the way people pay for everyday things in car parks, restaurants, stations, shopping malls and, naturally, on the Internet.

Still, things are changing. For a start, a handful of digital-money schemes are starting to pay their way. In America PayPal has been very successful as the main payment method for users of eBay, the country's dominant Internet auction site. Now PayPal plans to expand into Europe. It is negotiating with Britain's Financial Services Authority (FSA), which applies its version of an EU directive on electronic money from April 27th. PayPal may seek a licence from the FSA, with a passport to operate throughout Europe, or it may negotiate country by country. In America, it had to win licences state by state.

In its latest quarter PayPal made a net profit for the first time since its launch in October 1999. In February it floated $70m-worth of shares, which have since doubled in price. No auction site in Europe is as dominant as eBay is in America, so there will be less incentive for customers to sign up. They may, however, like to bypass high charges levied by banks for cross-border payments. PayPal charges individuals $1 for cross-border payments to and from America; within Europe, the charge might be about the same. That would undercut the banks, whose charges are around *euro*17 ($15.11)—though they should fall after July 1st, when charges for cross-border transfers within the euro area are banned from exceeding domestic charges. PayPal could yet become a preferred way of transferring money across the euro zone. Still, says Jack Selby, head of business development at PayPal, person-to-person payments are not enough. PayPal needs also to plug into Internet and other consumer businesses.

A potential rival to PayPal is Paybox, a mobile-phone messaging system that operates in five European countries. With Paybox you can use your phone to pay a taxi fare, provided the cabbie is signed up to Paybox and can spare a few seconds for the deal to go through. (You give the cabbie your number; he calls Paybox; Paybox asks you to punch in a PIN code.) Paybox can also be used in selected shops and restaurants. Its strength, and its weakness, is that it is half-owned by Deutsche Bank. Transactions are as swift as Deutsche's bank-to-bank transfers. But Mathias Entenmann, Paybox's chief executive, acknowledges that a consortium of banks would be better at spreading the product. Paybox's message system—it does not hold your cash—uses Deutsche's network and its relationship with other banks. The cross-border fee is *euro*1.50.

Go with the phone

PayPal, Paybox and lookalikes do not really bypass the banking system. All payments, it seems, have to end in somebody's bank account—with one possible exception, telephone-billing systems.

Mobile-phone operators are coy about using the full potential of their monthly or pre-paid accounts. Last

month Vodafone and T-Mobile, the biggest operators in Europe, announced that they will develop a common platform for mobile payments. All the same, payments are likely to be charged to a bank or credit-card account.

Mobile phones and their text messages have already changed the habits of a generation. Downloading ring tones and logos has prompted the first tentative use of phone bills to pay for other small services. The next step, paying in the same way for Internet content and other goods and services, is a good six months off. Vodafone is reluctant to get into the credit business, which it acknowledges banks do better. But Britain's BT announced on April 24th that it would offer an easier way, developed by Firstgate Internet in Germany, to make online micropayments. Initially, the payment would be charged to a bank or credit-card account, but in future it might be charged to a customer's phone bill, the company says. This might be particularly useful for paying to view or download Internet content.

Banks have been glacially slow under the threat of these developments. They have formed consortia among themselves, and with mobile-handset manufacturers, to explore payments by mobile phone. Still, banks and telecoms operators have tiptoed around each other. One bank consortium, the Mobey Forum, favours the use of a handset with two electronic cards, one for the telecoms company and one for the bank. This avoids the need for alliances between banks and telecoms firms. Mobipay in Spain, a venture between banks and telecoms companies, is an exception, but has yet to prove its worth.

How long can banks and telecoms companies keep their distance? The habit-forming power of the mobile may be the decider. People who were sceptical a year ago now believe that mobile phones will become the preferred tool for cashless payments. “They provide secure authorisation, everybody has one, and they're networked,” says Tim Jones, an independent consultant. The technology for perfect ease of use is still a year or two away. Today you cannot wave your mobile at a ticket barrier, or a trolleyful of supermarket goods, and debit your personal account; but that will come. The technology—short-range radio (that is, Bluetooth) or a radio frequency identity tag—can be stuck on anything, and not just a mobile phone. But for now the telephone is the tool, until the next generation finds an icon to replace it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Big MacCurrencies

Apr 25th 2002
From The Economist print edition

In the history of the Big Mac index, the dollar has never been more overvalued

CURRENCY forecasters have had it hard in recent years. Most expected the euro to rise after its launch in 1999, yet it fell. When America went into recession last year, the dollar was tipped to decline; it rose. So to help forecasters really get their teeth into exchange rates, *The Economist* has updated its Big Mac index.

The hamburger standard

	Big Mac prices		Implied PPP* of the dollar	Actual dollar exchange rate 23/04/02	Under(–)/over(+) valuation against the dollar, %
	in local currency	in dollars			
United States†	$2.49	2.49	-	-	-
Argentina	Peso 2.50	0.78	1.00	3.13	-68
Australia	A$3.00	1.62	1.20	1.86	-35
Brazil	*Real* 3.60	1.55	1.45	2.34	-38
Britain	£1.99	2.88	1.25‡	1.45‡	+16
Canada	C$3.33	2.12	1.34	1.57	-15
Chile	Peso 1,400	2.16	562	655	-14
China	Yuan 10.50	1.27	4.22	8.28	-49
Czech Rep	Koruna 56.28	1.66	22.6	34.0	-33
Denmark	DKr24.75	2.96	9.94	8.38	+19
Euro area	€2.67	2.37	0.93§	0.89§	-5
Hong Kong	HK$11.20	1.40	4.50	7.80	-42
Hungary	Forint 459	1.69	184	272	-32
Indonesia	Rupiah 16,000	1.71	6,426	9,430	-32
Israel	Shekel 12.00	2.51	4.82	4.79	+1
Japan	¥262	2.01	105	130	-19
Malaysia	M$5.04	1.33	2.02	3.8	-47
Mexico	Peso 21.90	2.37	8.80	9.28	-5
New Zealand	NZ$3.95	1.77	1.59	2.24	-29
Peru	New Sol 8.50	2.48	3.41	3.43	-1
Philippines	Peso 65.00	1.28	26.1	51.0	-49
Poland	Zloty 5.90	1.46	2.37	4.04	-41
Russia	Rouble 39.00	1.25	15.7	31.2	-50
Singapore	S$3.30	1.81	1.33	1.82	-27
South Africa	Rand 9.70	0.87	3.90	10.9	-64
South Korea	Won 3,100	2.36	1,245	1,304	-5
Sweden	SKr26.00	2.52	10.4	10.3	+1
Switzerland	SFr6.30	3.81	2.53	1.66	+53
Taiwan	NT$70.00	2.01	28.1	34.8	-19
Thailand	Baht 55.00	1.27	22.1	43.3	-49
Turkey	Lira 4,000,000	3.06	1,606,426	1,324,500	+21
Venezuela	Bolivar 2,500	2.92	1,004	857	+17

Sources: McDonald's; *The Economist*

*Purchasing-power parity: local price divided by price in United States
†Average of New York, Chicago, San Francisco and Atlanta
‡Dollars per pound §Dollars per euro

Devised 16 years ago as a light-hearted guide to whether currencies are at their “correct” level, the index is based on the theory of purchasing-power parity (PPP). In the long run, countries' exchange rates should move towards rates that would equalise the prices of an identical basket of goods and services.

Our basket is a McDonald's Big Mac, produced in 120 countries. The Big Mac PPP is the exchange rate that would leave hamburgers costing the same in America as elsewhere. Comparing these with actual rates signals if a currency is under- or overvalued.

The first column of the table shows the local-currency prices of a Big Mac. The second converts these into dollars. The average American price has fallen slightly over the past year, to $2.49. The cheapest Big Mac is in Argentina (78 cents), after its massive devaluation; the most expensive ($3.81) is in Switzerland. By this measure, the Argentine peso is the most undervalued currency and the Swiss franc the most overvalued.

The additional hamburger standard

	Big Mac prices		Implied PPP* of the dollar	Actual dollar exchange rate 23/04/02	Under(–)/over(+) valuation against the dollar, %
	in local currency	in dollars			
United States†	$2.49	2.49	-	-	-
Aruba	Florin 2.34	1.31	0.94	1.79	-47
Bahrain	Dinar 0.85	2.25	0.34	0.38	-9
Belarus	Rouble 2,280	1.31	916	1745	-48
Colombia	Peso 5,700	2.52	2,289	2,261	+1
Costa Rica	Colon 875	2.49	351	351	nil
Croatia	Kuna 14.9	1.80	5.98	8.29	-28
Dominican Republic	Peso 50.00	2.91	20.1	17.2	+17
Estonia	Kroon 28.5	1.62	11.4	17.6	-35
Guatemala	Quetzal 16.00	2.03	6.43	7.90	-19
Iceland	Krona 399	4.14	160	96.3	+66
Jamaica	Jamaican $120	2.53	48.2	47.4	+2
Kuwait	Dinar 0.65	2.12	0.26	0.31	-15
Macau	Pataca 11.2	1.39	4.50	8.03	-44
Morocco	Dirham 23.00	1.99	9.24	11.53	-20
Norway	Kroner 35.00	4.09	14.1	8.56	+64
Oman	Rial 0.90	2.34	0.36	0.39	-6
Qatar	Riyal 9.00	2.47	3.61	3.64	-1
Saudi Arabia	Riyal 9.00	2.40	3.61	3.75	-4
Slovakia	Koruna 63.00	1.35	25.3	46.8	-46
Slovenia	Tolar 430	1.70	173	253	-32
Suriname	Suriname guilder 6,000	2.75	2,410	2,179	+11
Ukraine	Hryvna 8.79	1.65	3.53	5.33	-34
UAE	Dirham 9.00	2.45	3.61	3.67	-2
Uruguay	Peso 28.00	1.66	11.2	16.8	-33
Yugoslavia	Dinar 85.00	1.25	34.1	67.8	-50

*Purchasing-power parity: local price divided by price in United States
†Average of New York, Chicago, San Francisco and Atlanta

Sources: McDonald's; *The Economist*

The third column calculates Big Mac PPPs. Dividing the Japanese price by the American price, for instance, gives a dollar PPP of ¥105, against an actual exchange rate of ¥130. This implies that the yen is 19% undervalued. The euro is only 5% undervalued relative to its Big Mac PPP, far less than many economists claim. The euro area may have a single currency, but the price of a Big Mac varies widely, from *euro*2.15 in Greece to *euro*2.95 in France. However, that range has narrowed from a year ago. And prices vary just as much within America, which is why we use the average price in four cities.

The Australian dollar is the most undervalued rich-world currency, 35% below McParity. No wonder the Australian economy was so strong last year. Sterling, by contrast, is one of the few currencies that is overvalued against the dollar, by 16%; it is 21% too strong against the euro.

Overall, the dollar now looks more overvalued against the average of the other big currencies than at any time in the life of the Big Mac index. Most emerging-market currencies also look cheap against the dollar. Over half the emerging-market currencies are more than 30% undervalued. That implies that any currency close to McParity (eg, the Argentine peso last year, or the Mexican peso today) will be overvalued against other emerging-market rivals.

Adjustment back towards PPP does not always come through a shift in exchange rates. It can also come

about partly through price changes. In 1995 the yen was 100% overvalued. It has since fallen by 35%; but the price of a Japanese burger has also dropped by one-third.

Every time we update our Big Mac index, readers complain that burgernomics does not cut the mustard. The Big Mac is an imperfect basket. Hamburgers cannot be traded across borders; prices may be distorted by taxes, different profit margins or differences in the cost of non-tradable goods and services, such as rents. Yet it seems to pay to follow burgernomics.

In 1999, for instance, the Big Mac index suggested that the euro was already overvalued at its launch, when nearly every economist predicted it would rise. Several studies confirm that, over the long run, purchasing-power parity—including the Big Mac PPP—is a fairly good guide to exchange-rate movements.

Still, currencies can deviate from PPP for long periods. In the early 1990s the Big Mac index repeatedly signalled that the dollar was undervalued, yet it continued to slide for several years until it flipped around. Our latest figures suggest that, sooner or later, the mighty dollar will tumble: relish for fans of burgernomics.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

South Africa and AIDS

Reason prevails

Apr 25th 2002 | PRETORIA
From The Economist print edition

The government finally gets serious about treating people infected with HIV

Get article background

EPA

IF ANYBODY doubts that South Africa's government made an important change in its AIDS policy on April 17th, consider the reaction next day in one senior politician's office in Pretoria. Officials from the health department rushed back and forth, hugging each other and grinning from ear to ear. Nono Simelela, the civil servant in charge of the country's AIDS programme, grasped colleagues by the hand and insisted they come to a party that afternoon.

Why were they so delighted? Until now, their political masters in government had been deeply sceptical about AIDS drugs known as anti-retrovirals which are favoured by the rest of the world, including poor African countries such as Uganda and Botswana. Last year Thabo Mbeki, South Africa's president, said the pills may be as toxic and dangerous as the disease. Although as many as 5m South Africans are believed to be infected with HIV, the virus that causes AIDS, and the disease is thought to be the leading cause of death in the country, most doctors in state hospitals have been prevented from prescribing anti-retrovirals such as nevirapine, which sharply reduces the chance that infected mothers will pass HIV to new-born babies.

Patients could still buy anti-retrovirals privately, but only 18 state hospitals were allowed to prescribe them. Even rape victims—even raped babies—who are especially vulnerable to HIV infection because of the violence of penetration, have been denied prophylactic drugs in state hospitals. Doctors who ignored the rules and gave drugs anyway risked losing their jobs. Charities, unions and others had resorted to smuggling generic copies of AIDS drugs from Brazil into South African clinics and hospitals.

That should all change with last week's announcement that “anti-retroviral treatments in general could help improve the conditions of people living with AIDS.” The government is working on a “universal roll-out plan” to give nevirapine to infected mothers-to-be. Although the timing remains a little vague, this plan is scheduled for “the post-December 2002 period.” Already, though, doctors are no longer looking over their shoulders. The health department has sent guidelines to all state hospitals explaining how nevirapine should best be used. And the government now supports the provision of anti-retrovirals as preventative drugs for rape victims, as long as people are warned about the genuine risks of taking them.

Getting real

Officials in the health department have demanded such changes for months, and one senior civil servant had apparently threatened to resign just before they were made. But even those officials were surprised by the cabinet's decision. Few think that Mr Mbeki, who has taken great interest in the science of HIV and AIDS, has changed his sceptical views. But his hand was forced after complaints from doctors and scientists, from within the ruling African National Congress, and from Nelson Mandela, his predecessor as president.

Even more important, perhaps, was a recent ruling by the constitutional court that the government must provide nevirapine. There was also pressure from foreign governments, ahead of an ambitious plan for

African development which is due to be launched by Mr Mbeki at the G8 meeting of rich countries in June. Donors asked how they could take such a plan seriously if Africa's most important country had such a terrible policy towards AIDS.

Activists, including the Treatment Action Campaign which took the government to court to force the provision of nevirapine, are also delighted, although they warn that practice, as well as policies, must now change. Even with central government support, poorer provinces will need several years to develop infrastructure, and to recruit and train enough nurses to make anti-retroviral drugs widely and safely available. Already, state hospitals and clinics in rural areas struggle to provide drugs to fight tuberculosis, which is spreading fast, along with HIV. But few expect the government to backslide on its new policy. Malegapuru Makgoba, who heads the country's Medical Research Council and has been a fierce critic of official AIDS policy, says the cabinet decision is irreversible, though he worries that relations between scientists and ruling politicians are terribly battered.

Now the government must face the cost of developing a balanced programme of prevention, education and treatment. Overall spending on fighting AIDS will almost double, from 1 billion rand ($91m) this year to 1.8 billion rand in 2004. But the cost of anti-retrovirals could knock a large hole in that budget, even though some pharmaceutical companies have agreed to sell some of their drugs at cost. The government says that the cheapest combination of long-term anti-retroviral drugs will cost 700m rand a year for 100,000 people. If all 5m infected people were to get such treatment, it would thus cost 35 billion rand. This is as much as the government now spends on all welfare and pension programmes, or a seventh of all state spending this year.

The government must now face the cost of developing a balanced programme of prevention, education and treatment

Instead, there will be more negotiations to warm up frosty relations with drug companies, and to cut the price of their products further. South Africa will also tap the proposed United Nations-backed global health fund, which will provide money for developing countries to fight AIDS, tuberculosis and malaria, though not to subsidise the use of drugs alone. On top of all this, says Joel Netshitenzhe, the government's spokesman, “we will investigate the possibility of manufacturing generic drugs in this country.” Factories in both Brazil and India already produce copies of patented drugs, which are sold very cheaply. But factories in South Africa might more easily supply the rest of Africa, which has the majority of the world's HIV-infected people, than plants in South America or Asia.

Mr Mbeki, however bitter he found this particular pill, has for now found a way out of a difficult political situation. The government still argues, rightly, that drugs will not solve South Africa's enormous AIDS problem on their own. But by agreeing to make use of anti-retrovirals, it will get more support from activists and donors for its educational, anti-poverty and nutritional campaigns.

On April 24th, therefore, Mr Mbeki made his strongest statement yet that people must change their sexual behaviour: “You can't be going around having hugely promiscuous sex all over the place and hope that you won't be affected.” If behaviour does change, and if better treatment means individuals are less infectious, this could mean that a million fewer South Africans are newly infected with HIV by 2015 than would otherwise have been the case, according to calculations that the Actuarial Society of South Africa made last year. It's a start.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Cosmology

The prints of darkness

Apr 25th 2002
From The Economist print edition

Astrophysicists are trying to work out how to study dark energy

WHEREAS astrologers search the stars for hints at human destiny, astronomers are hunting for hints at the universe's. In 1998, the oracles were in a tizzy. Studies of supernovae in distant galaxies showed that the universe's expansion was accelerating. The discovery was baffling: after the initial Big Bang had propelled matter outwards, the attractive force of gravity should gradually have braked the universe's sprawl. Either the theory of gravity—and, with it, all its predictions—was flawed, or some unknown physical force was driving matter out at ever-faster speeds. Physicists dodged the first bullet, and instead bit the second, dubbing this mysterious force “dark energy”. And having named it, they want to measure it.

At a conference of the American Physical Society held a few days ago in Albuquerque, New Mexico, two teams of researchers presented plans for telescopes which could do just that. Though very different in approach, both projects would work by studying the past formation of galaxy clusters—collections of hundreds of individual galaxies that are among the largest structures in the universe.

Cluster-bombing the problem

Initial calculations suggest that the previously unsuspected dark energy actually accounts for two-thirds of the substance of the universe. Surprisingly, that helps. Before 1998, most physicists believed that the universe contained far too little matter and energy. The more awkward question is whether the amount of dark energy is changing. If dark energy has always been as prevalent as it is now, then the universe will probably expand forever. If, on the other hand, it has gradually dissipated over the aeons, the universe's expansion could eventually slow to a halt, or even go into reverse.

Measuring any change in dark energy requires creative thinking, which is where the clusters come in. The rate at which galactic clusters form depends, in part, on the amount of dark energy around at the time. Because it opposes the attractive force of gravity, dark energy tends to inhibit cluster formation. So if dark energy has declined as the universe has aged, clusters would have appeared more slowly in the distant past than in the recent past. If, however, it has remained constant, the rate of cluster formation should have remained constant, too.

John Carlstrom, of the University of Illinois at Chicago, and his colleagues suggested to the conference that this might be detected by examining the cosmic microwave background (CMB), the hum of radiation that has blanketed space since the Big Bang. As galaxy clusters form, they create clouds of hot electrons. These electrons deflect a small proportion, about 1%, of the background microwaves. Whereas the CMB normally gives the universe a temperature of about 3° above absolute zero, a hot, gaseous galaxy cluster would turn up as a region of sky about a thousandth of a degree cooler, because of the microwaves that have been diverted away from it, a phenomenon known as the Sunyaev-Zel'dovich effect (SZE). A radio telescope listening to the CMB will “hear” this cold spot in the background.

Dr Carlstrom says this method may be particularly useful because the SZE is detectable over much longer distances than light or X-rays. Light becomes fainter as it travels through space, but distortions produced by the SZE will persist indefinitely. This means that a telescope tuned to detect cold spots could see much older clusters than one that is trained only on distant sources of light.

Dr Carlstrom and his colleagues propose building an eight-metre-diameter radio telescope at the South Pole to search for such cold spots. The altitude, low temperatures and lack of sunlight (at least during the Antarctic winter) make the atmosphere at the pole ideal for star-gazing. The South Pole Telescope could

thus see 10 billion years into the past, and might turn up thousands of clusters—more than enough to study the evolution of dark energy.

Another group of researchers wants to study galaxy clusters using a phenomenon called gravitational lensing. Because gravity pulls on light as well as matter, when light passes by a heavy object it bends as though it is passing through a lens. Tony Tyson and David Wittman, who work at Lucent Technologies' Bell Laboratories, in New Jersey, and their collaborators have proposed building a telescope that estimates the distribution of mass in the past by analysing these deflected light-waves, a technique known as three-dimensional mass tomography.

Light deflects around invisible matter in the same way that water ripples over hidden stones. Studying the ripples allows the mass of the deflecting objects to be calculated. If those objects are galaxy clusters, the growth-rates of such clusters at different times can then be worked out, and inferences drawn about the history of dark energy. Dr Tyson and his colleagues have recently finished making a preliminary design for such a device, which has been named the Large-aperture Synoptic Survey Telescope (LSST).

Physicists, and even more importantly their paymasters, must now weigh the merits of the two proposals. Because the LSST relies on studying distortions of light, it cannot see more than about 8 billion years into the past. But Dr Wittman argues that the LSST, unlike the South Pole Telescope, will be able to detect anything massive, not just stuff that once held hot gas. Moreover, he says that the LSST will have other uses, such as discovering more supernovae. That would provide yet another way to measure dark energy, as well as yielding results in other areas of astronomy. On the other hand, the LSST project is far more expensive. The $20m bill for the South Pole Telescope project would pay only for the camera on the LSST; the total bill for the latter comes to $110m.

Astrophysicists, though, are a co-operative bunch. Given the different strengths of the two telescopes it would be good, say the scientists involved, if both were built. That way, any conclusions about dark energy could be checked against the results of an independent investigation. “No one is going to overturn his theory of the universe based on just one set of measurements,” says Dr Wittman. Among astrophysicists, the hunt for darkness is all sweetness and light.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Height and earnings

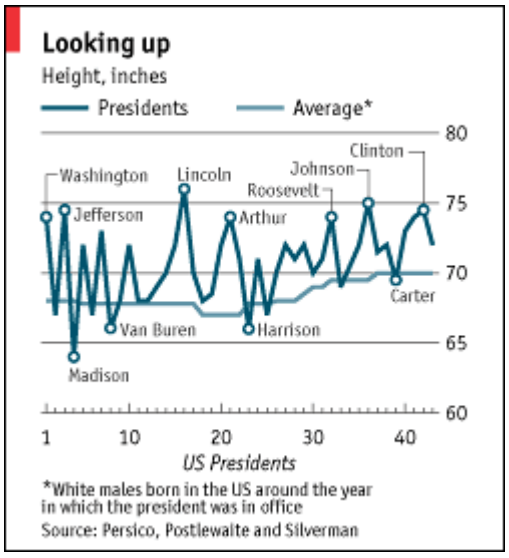
Walk tall

Apr 25th 2002
From The Economist print edition

Why it pays to be a lanky teenager

IF YOU want to be president of the United States, it is a good thing to grow up tall. In the past 13 presidential elections, the taller man has won ten times. George Bush junior is a rare exception. Washington, Jefferson and Lincoln were well above average height. So was Bill Clinton (see chart). If you want to earn a lot of money, though, it seems that what matters is not how tall you are as an adult, but how tall you were as a teenager. That, at least, is the conclusion of Nicola Persico, Andrew Postlewaite and Dan Silverman, of the University of Pennsylvania.

The three economists drew their data from Britain's National Child Development Study and America's National Longitudinal Survey of Youth. They first confirmed what short people have always suspected: that it pays to be tall. In Britain, if you are white and male, an extra inch (2½cm) goes with a 1.7% increase in wages; in America, with 1.8%. The shortest quarter of the population in both countries earns, on average, about 10% less than the tallest quarter. The impact of height on earnings is smaller than the impact of race (about 15% in the United States) and sex (about 20%). But it is still significant.



That was, on the basis of earlier work, to be expected. But the researchers also observed that height differs from race and sex in a crucial respect: it changes with age. They therefore decided to test whether the earnings gap results from direct discrimination in the labour market, or from some impact during a person's formative years.

When they looked at correlations between a man's income and his height at the ages of seven, 11 and 16, as well as his adult height, Dr Persico and his colleagues found that all of the effect of height on income was actually attributable to height at the age of 16. Neither variations in increase after that age, nor differences in height earlier in childhood, had any independent correlation with income.

Why is unclear. Purely biological effects, such as genetic or nutritional differences, can probably be ruled out. They are unlikely to manifest themselves solely in someone's teens. Employers' prejudice also seems implausible: an employer is unlikely to know how tall an employee was when young. With a little statistical effort, differences in family background and schooling can be ruled out, too. The key, argue the authors, is the “social and cultural stigma” of being a short 16-year-old. Men who were relatively short youths were less likely to take part in social activities, such as athletics, than their taller peers; yet sport and clubs may boost self-esteem and inculcate valuable social skills.

The work may have broader consequences. The differences in schools and family backgrounds of tall and short youths are tiny compared with those of white and black youngsters. If a teenage sense of social exclusion influences future earnings, it may have great implications for youngsters from minority groups.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

New fiction

A world in one room

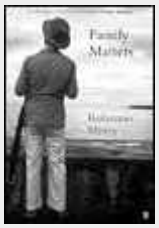
Apr 25th 2002
From The Economist print edition

Rohinton Mistry's new novel has a richness of life and attention to detail that puts him firmly in distinguished fictional company

MODEST, self-effacing and thin—terribly thin—Rohinton Mistry looks too slight to be the heir to a grand and sprawling tradition. Yet, since 1989 when his first collection of short stories was published, the Bombay-born Toronto émigré has emerged as one of the best of the Indian writers in English, a large group which includes members of the diaspora such as Vikram Seth and V.S. Naipaul, and goes all the way back to R.K. Narayan.

Mr Mistry's novels put the old fictional virtues of attention and compassion back at the centre of the enterprise. What they lack in formal invention, magical realism or fashionable exoticism is made up for by an unblinking gaze and microscopic powers of observation and recall.

Family Matters
By Rohinton Mistry



Faber and Faber; 487 pages; £16.99. Knopf (September 2002); $26

Buy it at Amazon.co.uk

"Family Matters" confines itself, as did the author's first novel, "Such a Long Journey", to one narrow, almost secret stratum of Bombay society—the dwindling communities of respectable lower middle-class Parsi families who live in run-down housing colonies founded by their philanthropic ancestors, where they struggle towards easier, more prosperous lives and dream of emigrating to Canada—as Mr Mistry did.

In India's population of a billion or so, the Parsis are an almost vanishing presence counted in the tens of thousands. Yet despite small numbers, they continue to be respected for their education, their good manners and their constancy. Banks, in particular, prize the Parsis' reliability and like employing them. But that is not enough to keep their star in the ascendant, and the reader watches, enthralled, as the interlocking cast of characters strive, dream, plan, argue, give parties and, more often than not, gradually and almost imperceptibly begin to give up.

Mr Mistry first narrows the focus to a single Parsi family, with vivid walk-on parts for their neighbours, employers and friends. He then tightens it again to the cramped, shared room where Nariman Vakeel, paterfamilias, endures his last months and reflects on a disappointing life. In the words of John Donne, such is Mr Mistry's power that he makes "one little room, an everywhere". In his hands, the particular becomes universal.

Nariman spends much of his time ruminating on his forced marriage and on Lucy, the non-Parsi from Goa his family told him to renounce, with dreadful consequences for himself and the children he raised, while he is also painfully conscious that intermarriage within the caste is the Parsis' only hope for survival. As his body succumbs to Parkinson's disease, Nariman's presence in the home—first of his stepchildren and, after they make it impossible for him to return, that of his daughter—becomes ever more an intrusion. The novelist dwells on the physicality of domestic life—the smells, the bedpan, the urine bottle and the struggle to keep clean. He makes it a metaphor for life in Bombay, or any Indian city. But that he does so while deliberately not writing directly about sex, serves also to emphasise, in ways so subtle they are sometimes comic, how much living cheek by jowl can test the human character (remember Gandhi, who made himself clean latrines while in internal exile and forced his wife to do the same, or leave).

Such stark description could make this novel sound depressing. It is not depressing, but joyous. Mr Mistry's prose style is as clear as a pane of newly-polished glass. Few novelists could get away with the scene in which a young boy feeds rice to his invalid grandfather, spoonful by spoonful, watched by his mother. She thinks: “My son, my father, and the food I cooked.” Not an extra word, no sentimentality or artful writing, interferes with that timeless moment. Mr Mistry has omitted any endearment, does not name the variety of rice or praise the food. Such pared down language takes enormous self-discipline.

Mr Mistry is a literary writer who can also sell well, though the astounding success of his second novel, “A Fine Balance” (1995), was largely due to a rare highbrow selection on Oprah Winfrey's soon-to-be-defunct TV book show. Both that novel and his first, “Such a Long Journey” (1991), were shortlisted for the Booker fiction prize awarded annually in October. “Family Matters” deserves this year finally to carry the day. Some people have even likened him to Dickens or Balzac. Perhaps it would be fairer to say that he has absorbed them both, and now writes like himself.

Family Matters.
By Rohinton Mistry.
Faber and Faber; 487 pages; £16.99. Knopf (September 2002); $26

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

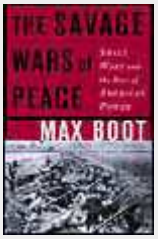
America and foreign wars

With or without

Apr 25th 2002
From The Economist print edition

SO THE old bard of imperialism has his admirers still on the *Wall Street Journal*. In the late 1890s Rudyard Kipling was inspired by the war in the Philippines to urge America to take up the white man's burden and fight the “savage wars of peace”. Max Boot, an editor on the *Journal*, has written a book pointing out that the United States has indeed been fighting such wars, with reasonable success, since the 19th century, and urging it to keep up the necessary work.

The Savage Wars of Peace: Small Wars and the Rise of American Power
By Max Boot



Basic Books; 448 pages; $30

Buy it at Amazon.com

Mr Boot says America's small wars fell into three distinct periods. From the late 1700s to the 1890s, American soldiers and sailors were in action around the world in order to open up and protect trade routes. The longest of these small wars was the pacification of the lawless Barbary coast of North Africa. Britain's royal navy was the world's policeman then, but “the United States was a junior constable, often working hand in glove with the British to defend freedom of the seas and open markets in China, Japan and elsewhere.”

In a second period, from 1898, when the United States defeated Spain and grabbed some of its colonies, to 1941, when it entered a world war, America emerged as a great power. Among these conflicts of these decades were a war to keep the previously Spanish Philippines under American control and police actions in the Caribbean under the Monroe Doctrine . The latter included a three-year occupation of Cuba, a 19-year occupation of Haiti and an eight-year occupation of the Dominican Republic. With Britain and France, America also entered the civil war in Russia in 1918, and joined an international expedition to rescue the besieged foreign legations in Peking in the late 1930s.

After the second world war, America mutated from great power to superpower and small wars fell out of favour. Failure in Vietnam persuaded many thoughtful officers, notably Colin Powell, later to become chairman of the joint chiefs of staff and secretary of state, that it would henceforth make sense for America to wield its sword only when its vital interests were threatened, and then only if it were prepared to use overwhelming force with total public support to achieve a fast victory and then go home. These views subsequently became the Powell doctrine.

Most of Mr Boot's book explains how and why America got into its miscellaneous small wars and how it conducted them. He tells the story with clarity and verve, rediscovering on the way some lesser-known American heroes, such as Stephen Decatur, a swashbuckling captain who on the Barbary coast boarded and captured a Tripolitan gunboat by fighting man-to-man with pistol and cutlass against heavy odds. Clear narrative plus such tales of derring-do are enough on their own to make this book enjoyable. But Mr Boot is also trying to make a point about the present. In particular, he wants to demolish the Powell doctrine.

Like Britain in the 19th century, says Mr Boot, America has more force at its disposal than any other state, and so is well able to pick up where the royal navy left off. In a mixture of self-interest and high-mindedness, the British battled what he calls enemies of mankind such as pirates and slave traders and kept the world's oceans safe.

The tasks for America today are similar: chasing down terrorists, drug traffickers and weapons proliferators, and keeping the skies as well as the oceans open for commerce. Just as Britain preserved the balance of power by protecting weak nations (such as Belgium or Turkey) from being bullied by strong ones (Germany or Russia), so America has played a similar role in protecting Kosovars against Serbs and Kuwaitis against Saddam Hussein. Few of America's small wars would have met the tests

implied by the Powell doctrine, but many of them achieved their aims at minimal cost in American lives or treasure. With such a history, says Mr Boot, Americans should feel more confident about waging small wars to “enlarge the empire of liberty”.

Well, maybe. But why on its own? Since September 11th, the dilemma facing American foreign-policy makers arguably has less to do with choosing between isolation and intervention than between going it alone and going it with others. Should the United States rely principally on its own power and authority or try to strengthen alliances (NATO) and international institutions (the UN and the World Criminal Court)? How should it balance the freedom of working alone against the benefits of shared burdens and the broader legitimacy that comes from collective action? These questions go largely unexamined in Mr Boot's otherwise informative book.

The Savage Wars of Peace: Small Wars and the Rise of American Power.
By Max Boot.
Basic Books; 448 pages; $30

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Labour chancellors

Two of a kind

Apr 25th 2002
From The Economist print edition

OLD Labour (as it is now convenient to call it) produced two historically important chancellors of the exchequer: Sir Stafford Cripps (1889-1952), who introduced the post-war consensus for full employment through demand management; and Denis Healey (born 1917), who was forced to abandon it. They are strikingly similar in several ways: non-economists, with strengths drawn from abnormal energy and intelligence, and entirely happy marriages; both inspiring unusual affection among their civil servants, and widely regarded as lost leaders of their party (though neither was willing to make the compromises needed to win election to the job). Since both are also subjects of new biographies issued within a few days of each other, it is tempting to arrange them like book-ends round an economic Greek tragedy, and simply search for historic ironies. But this would be too tidy.

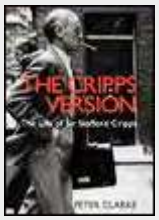
Not just a generation divided the two chancellors, but a whole era. Cripps, the red squire of the newspapers, was a political grandee, owing as much to the 18th century as to the 19th. A religious man, born into a prosperous legal family, he became the youngest silk in the country, and married into the Eno's Fruit Salts millions. In 1930 he joined the Labour government as solicitor general but resigned a year later when Ramsay Macdonald formed a coalition with liberals and conservatives. When, in opposition, he was thrown out of the Labour Party, he financed *Tribune*, his own left-wing journal of dissent.

At the outbreak of war, he threw up his legal practice and volunteered his services to the government. When there was no immediate response, he embarked on a private diplomatic tour of China and Russia, and began his personal mission to make India independent. It is hard to imagine a more breathtaking example of what Clement Attlee was to call the egotism of altruism; but after eight months he had battered his way back into government by sheer self-assertion, in the unique post of unpaid ambassador to Moscow, with a seat in Parliament. Small wonder, perhaps, that he was regarded as the most credible alternative to Churchill as prime minister, joining the war cabinet in 1942 (where he supported strategic bombing); or that when he went to see Attlee after the convertibility crisis of 1947 to suggest a reshuffle in which Attlee would make way for Ernest Bevin, this was taken in good part. Cripps became Attlee's dominant minister, his inter-war leftism forgotten as he struggled with reality. The Gosplan approach to economics, still practised in the early post-war years became Keynesian demand management, as he explained in too much detail in his 1950 budget speech.

This strange story is told by Peter Clarke, a history professor at Cambridge University, with much sobriety, still more affection, but rather an odd balance. As the first historian with access to the Cripps diaries, Mr Clarke spends time correcting received errors. We have nearly 200 pages of blow-by-blow in India, less than 50 on post-war economics. Enough still, to nail the myth of the cold, austere Cripps. In private the chancellor was even-tempered and even jokey. As a mandarin, Edwin Plowden, asked a friend after Cripps's death: “Why is everything so beastly? With Stafford here it was such fun.”

The Treasury was rather less fun, some of the time at least, under Denis Healey, given to bouts of fury and black-dog depression, as he struggled with recurrent crises. With active malice from the left, vacillation in Number 10 and heavy visitations from the IMF (provoked partly by misleading statistics) even Cripps might have shown a harsher side. Not that it mattered within the office. “He was”, a permanent secretary has reported, “by far the rudest minister I have ever met. And we all learned to love him.” And would he have made a good prime minister? Another civil-service view recorded by

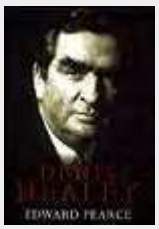
The Cripps Version: The Life of Sir Stafford Cripps
By Peter Clarke



Allen Lane; 592 pages; £25

Buy it at Amazon.co.uk

Denis Healey
By Edward Pearce



Little, Brown; 634 pages; £30

Buy it at Amazon.co.uk

Edward Pearce here leaves room for doubt: “He was no good with junior ministers; didn't seem to know what they were for.” Roy Hattersley, on the other hand, called his time as a Healey junior heavenly.

Mr Pearce's is the official life, with full access to papers. It is rich in detail and anecdote, and a wonderful read. We have Healey the learned and opinionated art enthusiast; or bored and boyishly answering his official telephone as a Chinese laundry. We meet Harold Wilson as prime minister, a figure of contempt here, “in blasted heath mode”, Tony Benn making mischief, and the patient Edna Healey: “Perhaps it is time we went home, Denis; I think you've insulted everyone now.”

But objective it isn't; and the economics is sketchy. Mr Healey's time in the Treasury is presented as a slow climb from Keynesian darkness into monetary light, with little sign that Mr Pearce has noticed that domestic-credit expansion, Mr Healey's lodestar, is now little more than a statistical footnote, or that monetary targetry under Lady Thatcher subsequently failed. Perhaps, too, we should have been told more clearly which are Mr Pearce's views and which are his hero's.

The Cripps Version: The Life of Sir Stafford Cripps.
By Peter Clarke.
Allen Lane; 592 pages; £25

Denis Healey.
By Edward Pearce.
Little, Brown; 634 pages; £30

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Human rights

Impartially engaged

Apr 25th 2002
From The Economist print edition

IS IT possible to believe in the ideal of human rights in a disinterested way: in other words, without making excuses for people or governments you regard as friendly, or showing disproportionate rage against people or regimes that you never liked anyway. Or, to put it crudely, do we all have a favourite torturer?

Jeri Laber co-founded an organisation which campaigned for the observance of the Helsinki Accords, and has since metamorphosed into Human Rights Watch, an influential international lobby group. She has devoted much of her life to the belief that such a disinterested approach is not only possible, but morally imperative.

But as with any moral principle, its consistent observance carries a price. She learned this in the early 1980s, as a staunch supporter of prisoners of conscience in the Soviet Union and Eastern Europe who also exposed the horrific torture that was being practised in Turkey, one of NATO's bulwarks against the Warsaw Pact.

The Courage of Strangers
By Jeri Laber

Public Affairs; 416 pages; $27.50

Buy it at Amazon.com

With due regard for the politics of the possible, she wrote a mild article urging Elliot Abrams, a Reagan administration official whom she knew well as a fellow supporter of Soviet dissidents, to use quiet diplomacy, at least, to raise human-rights concerns during a forthcoming visit to Ankara. He hit back, she tells us, with a withering attack on the “shrill and uninformed” approach of Ms Laber's lobbyists and their “appalling shallowness”. And so the friendship came to an end.

Fortunately she had other friends, many of them in uncomfortable places. She won the trust of such giants of dissidence as Vaclav Havel (now Czech president), Andrei Sakharov, Natan Sharansky (now an Israeli politician) and Larisa Bogoraz, whose husband Anatoly Marchenko died on hunger strike in the Soviet Union.

In an honest, moving and simple memoir which shows self-knowledge without self-indulgence, Ms Laber describes her background as the daughter of a self-made Russian-Jewish entrepreneur in New York who discouraged her fascination with Russian culture. Like many of the Soviet Jewish dissidents she befriended, Ms Laber feels ambivalent about the land where her ancestors suffered pogroms: passionate about its literature, horrified by its cruelty.

Though human rights involve universal values, all of us are partial in our sympathies, even Ms Laber. How far, for example, does it trouble her that some of the erstwhile dissidents she befriended—such as Mr Sharansky and his wife Avital—have moved to the edge of the spectrum and now profess dishearteningly illiberal views? We are not really told. Such points of friction appear to be few, however. Ms Laber is a standing credit to the disinterested approach. At risk of unpopularity with her compatriots, her Human Rights Watch has continued to keep an eagle eye on violations of humanitarian law by the United States and its friends, including Israel.

The Courage of Strangers.
By Jeri Laber.
Public Affairs; 416 pages; $27.50

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

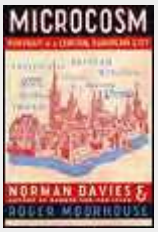
Central European history

What's in a name

Apr 25th 2002
From The Economist print edition

WROCLAW is a bustling city in central Europe. With its fine municipal buildings surrounded by a grand old square, it looks every inch an integral and permanent part of Poland. It would seem that its inhabitants have always been Poles and that those Poles who live there belong to families who have always inhabited the area. Nothing could be further from the truth. Wroclaw until the end of the second world war was called Breslau; it was a city of the German Reich which had elected Nazis to its offices of local government. When the Red Army invaded in May 1945, most of the German inhabitants fled in terror, and those who remained were quickly expelled by the Soviet occupying authorities. The population had fallen in wartime. The Jews had almost all been exterminated, the Poles depleted by disease, malnutrition and deportation. Stalin expanded the Soviet Union at Poland's expense and gave parts of Germany to Poland in compensation; and he wanted to be rid of the Poles of pre-war eastern Poland, which had been transferred to Ukraine. His solution was to move such Poles to one of the emptiest places in the new Poland: the city we now call Wroclaw.

Microcosm: Portrait of a Central European City
By Norman Davies and Roger Moorehouse



Jonathan Cape; 585 pages; £20

Buy it at Amazon.co.uk

"Microcosm" tells the story of the city across the centuries. While not neglecting ethnic hatred and folly, the book is a hymn to diversity and cultural achievement. Wroclaw has changed its name many times: it has been Vratislavia, Vraclav, Vretslav, Presslau, Bresslau and Breslau. Poles, Czechs and Germans have governed it. The town has belonged to all the empires that held sway in central Europe. Its dominant religion has been Protestant as well as Catholic; and from 1945 to 1989 its official doctrine was communism.

The authors challenge several tenacious clichés about the European past. They attack nationalist historiography, especially in its Polish or German schools, which claim Wroclaw-Breslau as the city of a single people. Polish rulers needed their German subjects, German rulers needed their Polish ones. In an elegiac final chapter the authors list the achievements of the city's writers and scientists.

Perhaps the book's hero is the little-known Roman Aftanazy, who arrived in Wroclaw as a so-called repatriant from Lwow in 1946. Shattered by the Nazis' cultural devastation (which was continued by their Marxist-Leninist successors), Aftanazy devoted his free time to compiling a card index of the region's artistic artefacts. He wrote over 40,000 letters in connection with his 14-volume work, which could be published only after communism fell. Thus he preserved the memory of the diverse and vibrant culture of Wroclaw with due respect for each of the national groups which had lived there. It is in this sense that the authors take Wroclaw as a microcosm—of the Europe which, we trust, has gone and of the Europe which, we hope, is returning to us.

Microcosm: Portrait of a Central European City.
By Norman Davies and Roger Moorhouse.
Jonathan Cape; 585 pages; £20

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

A gardening correspondence

Herbaceously yours

Apr 25th 2002
From The Economist print edition

GARDENERS are often surprisingly good letter writers. Perhaps because it is impossible to achieve the perfection they dream of, they like to talk back and forth about their successes and their failures. They write as a way to go on gardening after they have put away their tools in the shed.

Twenty years of correspondence between two American gardeners began with a fan letter. Katharine White worked at the *New Yorker* and, sometime in the late 1950s, Elizabeth Lawrence was much taken by one of her columns. Ms Lawrence was herself a gardening writer and a genteel southerner. For generations members of her family had written to each other signing off with their full names, as in “Your devoted mother, Elizabeth B. Lawrence”. For all that, she called herself a dirt gardener, who did not shirk digging and planting. Ms White preferred catalogues.

Their enthusiasm bound them together while giving them room to explore their differences. Thus Ms White, living on a farm in Maine for the sake of her husband, E.B. White (the author of a children's farmyard classic, “Charlotte's Web”), fulminates against the north-eastern winter and the “frigid and six-weeks-late spring” that causes herlupins and ajuga to die. She frets one year that her bulbs have grown up all short-stemmed because she left them—just the once—in the ground instead of taking them up to make space for herannuals and storing the bulbs through the summer. To which Ms Lawrence, safe in the near-tropical warmth of North Carolina, replies: “In my garden everything grows on top of everything else, and I let them fight it out.”

The early letters revel in discovery, the search for catalogues and seed suppliers being a laborious business before the Internet. As the friendship matures, they share more and more of each other's lives. Ms White expresses her delight at a newborn grandchild, but when her mother falls ill it is the unmarried Ms Lawrence who had earlier nursed an elderly aunt who offers the greatest solace and the most sensible advice. When Ms White died in 1977, her husband carried on writing, entreating Ms Lawrence to reply. “One of my golden astonishments is finding a letter from you in the mail.”

Both women were traditionalists. Yet they were partial to informality, whether in borders that were allowed to spill over, in flower arrangements or in letters. And the letters are full of laughter, knowledge, irrational prejudice and unexpected details. Both women belong in the company of the great early gardening writers and are admired by those who have come afterward. In this delightful collection, it is easy to see why.

Two Gardeners: A Friendship in Letters.
By Katharine S. White and Elizabeth Lawrence.
Edited by Emily Herring Wilson.
Beacon Press; 256 pages; $25 and £19.99.

Two Gardeners: A Friendship in Letters
By Katharine S. White and Elizabeth Lawrence
Edited by Emily Herring Wilson

Beacon Press; 256 pages; $25 and £19.99.

Buy it at
Amazon.com
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Archaeological decipherment

A puzzling case

Apr 25th 2002
From The Economist print edition

WHEN Arthur Evans was excavating Knossos on Crete in 1900, he found clay tablets marked with indecipherable signs. Unluckily, no Rosetta stone written in known and unknown scripts turned up to help decode them. On a visit to an exhibition in London's Burlington House 36 years later, Evans remarked to some public-school boys from Stowe that the script on display could still not be read. “Did you say the tablets have never been deciphered, sir?”, one of them asked. It was the 14-year-old Michael Ventris who in 1953 (by then an architect) cracked Linear B.

Ventris was assisted by a Cambridge classicist, John Chadwick, who later wrote “The Decipherment of Linear B” (1958). But Andrew Robinson thinks that Chadwick, in elucidating a complicated subject, over-rationalised Ventris. Working through Ventris's contemporary notes, Mr Robinson concludes that his reasoning was shot through with improvisation and intuition, and that is why it was he who found the key—not his more conventionally trained colleagues and predecessors, such as Alice Kober or Emmett Bennett Jr.

The Man Who Deciphered Linear B
By Andrew Robinson

Thames & Hudson; 168 pages; £12.95

Buy it at Amazon.co.uk

Mr Robinson's wonderfully swift and clear biography, written for the non-specialist, aims to open the gaps that Chadwick's logic has smoothed over, to point up the imaginative leaps, the blind alleys and the difficult, against-the-grain conclusions. Inevitably it contains much technical material: the nature of different kinds of scripts, analyses of linguistic structures, sign-lists and sign-grids on which, crossword-like, Ventris experimented with possible vowels and consonants. But Mr Robinson makes it painless—better still, he recaptures the excitement of the chase.

Woven into the story of Linear B is the story of the man: his artistic, half-Polish mother; his facility for languages; his modernist, anti-classical aesthetic (which probably delayed his recognising the language written in Linear B as an early form of Greek); his charming but distant character; and his unconventional decisions to skip university, to train as an architect, and to make his work on Linear B into a personal obsession rather than a professional job.

But not secret

Ventris was that rare bird, a disinterested scholar. True to the group-working practices of his socialist architectural circle, he was transparent about work in progress. He published, invited comment, hoped that someone, anyone, would find the solution. Decipherment was, for him, an intellectual puzzle. Once solved, he lost interest. He declined all academic honours. Mr Robinson points to dark, unexplained moments in his life: to his mother's suicide, to sudden disenchantments and withdrawals, to the tensions between his architectural and scholarly passions. One midnight, aged 34, he ploughed his car into a stationary lorry. The verdict was accidental death. The suspicion was suicide.

The Man Who Deciphered Linear B.
By Andrew Robinson.
Thames & Hudson; 168 pages; £12.95

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bayreuth festival

Ha, ha, ha

Apr 25th 2002
From The Economist print edition

At 82 Wolfgang Wagner is not yet ready for Valhalla

IF YOU should visit the Bayreuth festival theatre, you may be startled by a spectral guffaw echoing in that charmless but acoustically exquisite pile. It is the sound of Wolfgang Wagner, the founder's grandson and for more than half a century director of the festival, enjoying the last laugh.

Those who have fought to follow the near-interminable struggle for control of the festival among the pugnacious descendants of the master (as some zealots still call Richard Wagner) may gape to learn that Wolfgang is still able to laugh at all.

The last few years have brought the white-maned, short-tempered boss all manner of troubles: rows with Placido Domingo and Waltraud Meier, two old Bayreuth favourites; fortissimo boos for a new “Ring” production; and the death of a key conductor, Giuseppe Sinopoli, between seasons. And Wolfgang himself faced a crescendo of complaints, even from once-loyal allies, that he was past it and should go.

In early 1999 Wolfgang did signal that the hunt for a successor should begin, believing (though he never said so directly) that his wife Gudrun, now 57, would get the job. To his chagrin the 24-member board of the Richard Wagner Foundation instead named Eva Wagner-Pasquier, Wolfgang's estranged daughter by his first marriage. Game and set, it seemed, to Eva.

But Wolfgang comes into his own with his back to the wall, where it has often been. He it was who had to go to war while his elder brother Wieland stayed home on orders of Adolf Hitler, a Bayreuth fan devoted to the children's English-born mother, Winifred; he who did most of the organisational donkey work when the festival re-started in 1951. His productions were often (usually rightly) judged inferior to his brother's. Yet when Wieland died in 1966, Wolfgang grasped all the power he had hitherto shared and cannily secured a contract for life.

Wolfgang, in short, cannot be booted out unless proved guilty of grave misconduct. True, commercial success is far from everything and there is plenty of scope for debate about how Bayreuth's facilities and repertoire (which excludes Wagner's early works) might be developed. But even Wolfgang's foes can't deny that, year in year out, the festival is swamped by half a million applications for 50,000 tickets.

In the end, Eva decided to concentrate on her work in helping to run the Aix-en-Provence festival. Others contenders, such as Wieland's fiery daughter Nike, who once perspicaciously called the family “a selfish, pretentious mass with prominent noses and thrusting chins”, remain helplessly in waiting.

So no change at Bayreuth? Indeed there is—but not everyone has yet realised how much. Even Wolfgang knows he will not live for ever, and that the festival would be plunged into crisis if a smooth power transition were not guaranteed. So he began looking for a hero seemingly as mythical as Siegfried; a proven opera manager who knows the Wagner canon backwards and who (this is the tough part) gets on not only with all branches of the Wagner family, but with the politicians and lawyers who also sit on the foundation's board.

Amazingly, someone fitted the bill; Klaus Schultz, 54, who has run opera houses in Aachen and Mannheim and is now boss of Munich's Staatstheater am Gärtnerplatz (recently showing “Das Liebesverbot”, one of those early Wagner operas Bayreuth audiences never get to see). Just before Christmas the board unanimously appointed him Wolfgang's right-hand man. Since then Mr Schultz (who stays on at Gärtnerplatz) has been shuttling to and from Bayreuth, learning the ropes there as only Wolfgang knows them. Does that mean the Bayreuth sceptre is set to pass to a non-Wagner? Not really. If Wolfgang dies, becomes, as he puts it, a mummy or, improbably, retires, then Mr Schultz would take

over as acting director. But acting for how long?

A tip for the finale

At the Würzburg opera house's “Flying Dutchman” this autumn you will see the debut as producer of one Katharina Wagner, aged 23. She is the daughter of Wolfgang and Gudrun and happens to live in Berlin just across from the Deutsche Oper, whose chief conductor Christian Thielemann is regularly feted at Bayreuth and who will lead the “Ring” there from 2006. “We are good friends,” Mr Thielemann says of Katharina—a phrase that, in this case, almost certainly means no more than it says, despite rumours that the pair are all but wed.

Can it be that a troika is shaping up for Bayreuth before long, with Katharina as director, Mr Schultz as manager and, as what amounts to house conductor, good friend Mr Thielemann? There are precedents for a set-up very like that, both in the era of Cosima Wagner (Richard's widow) and in Winifred's. Eva and Nike are already in their late 50s and neither, thanks to Wolfgang, is getting any practical experience at Bayreuth. If you were sitting on the foundation's board in, say, 2006 and were faced with the succession issue, how would you decide? No wonder that old fox Wolfgang is having a good chortle.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

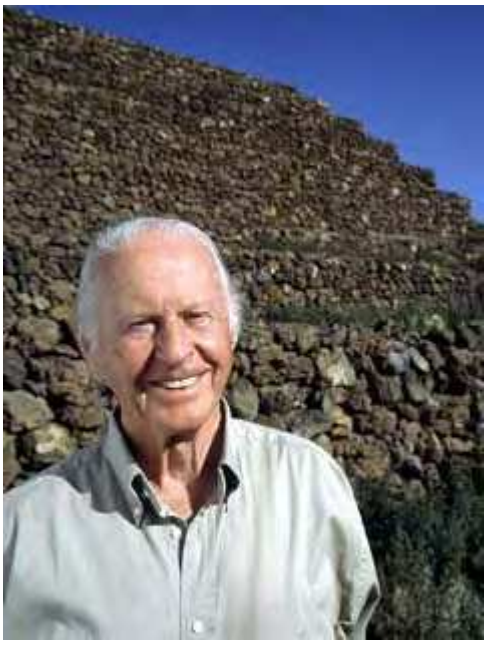
About sponsorship

Thor Heyerdahl

Apr 25th 2002
From The Economist print edition

Thor Heyerdahl, the Kon-Tiki man, died on April 18th, aged 87

AP



THE first publishers that were offered Thor Heyerdahl's "Kon-Tiki" thought there would be little public interest in a scientific voyage on a raft across the Pacific. "Did anyone drown?" one publisher asked hopefully. Mr Heyerdahl said that he and his five companions had felt a bit tired when they landed on a Polynesian reef after 101 days at sea, but were otherwise fit. Well, in that case...

Eventually Mr Heyerdahl did find a publisher brave enough to take on his saga. The book sold more than 30m copies and was translated into 67 languages. A triumph, and a satisfying smack in the eye for those who had turned him down. But the most important result for Mr Heyerdahl was that money from his writing allowed him to spend a vastly interesting life pursuing a number of unorthodox notions, some of them plausible, some of them cranky, all of them infuriating to those whose theories he was challenging.

"Kon-Tiki", while a success with the general public, was knocked by some anthropologists who disputed Mr Heyerdahl's claim that many Pacific islands had received their first people from South America. The orthodox view was that they had been first settled from Asia as part of the slow drift eastwards of humans from Africa; everyone knew that. Everyone except, it seemed, Thor Heyerdahl. He saw cultural and genetic links between South Americans and Polynesians, and set out to show that such a voyage between the two territories would have been possible in ancient times. Using balsa wood and other materials that would have been available in antiquity, Mr Heyerdahl built the *Kon-Tiki*, named after a mythical South American king said to have been fleeing for his life, and launched her from Peru. As he had predicted, she was carried by currents and wind to Polynesia 4,300 miles away. The raft stood up to Pacific storms and Mr Heyerdahl and his friends supplemented their diet with algae strained through cloth.

The voyage showed only that contacts had been possible among the ancients across vast stretches of ocean, not that they had happened. But Mr Heyerdahl was well satisfied. He had in mind a Big Idea. The *Kon-Tiki* expedition was just the start of his efforts to shape it.

As Adam and Eve

Thor Heyerdahl's mother ran a museum in his hometown Larvik, a port city in southern Norway. Helping her, he said, he first became interested in what he called "natural things". At Oslo University he studied zoology and geography. In 1936 his indulgent parents provided him and his new bride with enough money to spend a year in the Pacific, partly as a honeymoon, partly so that Mr Heyerdahl could gather material for a doctorate on Pacific life. In fact the couple chose to live as a modern Adam and Eve on the island of Fatuhiva in the Marquesas. But modern stomachs turned out to be unsuited to roots and berries. His bride became seriously ill and discovered that modern medicine had its charms.

Still, the Pacific had Mr Heyerdahl in its grip. After the second world war (when Norway was occupied by Germany and Mr Heyerdahl served with the Allies) he mulled over how the islands had been settled. After his *Kon-Tiki* experience he posed the question: If such voyages took place in the Pacific might there have been similar voyages elsewhere in the ancient world? Were the oceans less a barrier isolating people, more an avenue connecting them? Mr Heyerdahl became convinced that this is what had happened. "The ocean is a conveyor and not an isolator," he said. He rejected the assumption that Europeans were the

first to discover distant lands. Columbus was not the first to sail to America; nor even Mr Heyerdahl's fellow countryman Leif Ericsson.

> We Europeans are so one-track minded when it comes to our own history that we say to the world that Europe discovered the whole world. I say that no European has discovered anything but Europe.

Mr Heyerdahl was intrigued by the number of step pyramids found in different parts of the world. These tend to be smaller and of more ancient origin than true pyramids with their smooth sides. Did the knowledge of their construction spread from Egypt to Mexico, Peru and the Canary Islands? (In our picture Mr Heyerdahl is standing in front of what is believed to be a step pyramid in Tenerife.) To show that an Atlantic crossing was possible with the technology that existed in ancient times, in 1969 he built a ship of reeds called *Ra* based on an Egyptian design and launched her from the former Phoenician port of Safi, in Morocco. The ship survived in the Atlantic for 56 days before she became dangerously leaky. A second reed ship reached Barbados safely.

Mr Heyerdahl's surmise that the old civilisations were linked by sea, exchanging ideas and materials remains a matter of debate, if not scepticism, for many anthropologists. Similarities between ancient cultures are assumed to be coincidences. Nevertheless, Thor Heyerdahl extended the role of anthropology. He was a marvellous stimulant: everyone who met him came away with their head buzzing with ideas. In Norway he was simply a hero. In 1999 he was voted Norwegian of the century. So there.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Apr 25th 2002
From The Economist print edition

The **euro area's** economy continues to show signs of a moderate pick-up after last year's economic downturn. The EuroCOIN indicator, a measure of economic growth, rose to 0.427 in March, up from 0.377 in February; the index's November trough is thought to have marked the bottom of the downturn. But the IFO survey of **Germany's** business climate fell to 90.5 in April, from 91.5 in March.

New trade figures show a strong appetite for European exports. The **euro area's** trade surplus rose to $50.3 billion in the 12 months to February, up from a deficit of $7.0 billion in the previous year. In the year to February, **France's** current-account surplus narrowed slightly to $24.4 billion; **Italy's** trade surplus rose to $8.5 billion, up from $1.6 billion in the previous year.

Austria's economy slumped last year. GDP fell by 0.4% in the year to the fourth quarter. Retail sales rose by 0.7% in the year to January. Consumer-price inflation in **Germany** was 1.6% in the year to April, down slightly from 1.8% in the year to March.

Sweden's unemployment, already low by European standards, fell further in March, to 3.8%, from 4.0% in February.

Confidence among **Britain's** manufacturers in the first quarter reached its highest level in eight years, according to the Confederation of British Industry's quarterly survey. About a third of firms were more optimistic than last quarter; 13% were less confident. Despite these buoyant expectations, 72% of companies said they were operating below capacity—the highest level in nine years.

Japanese consumer confidence rose to 38.4 in the first quarter, from 36.9 in December. Consumers' outlook on jobs was especially bright.

Canada's consumer-price inflation quickened to 1.8% in the year to March, up from 1.5% in the year to February.

Australia's consumer prices rose by 2.9% in the year to the first quarter, down a bit from the 3.1% inflation in the year to the fourth quarter. Producer prices climbed by 0.5% in the year to the first quarter, rebounding from deflation of 0.7% in the fourth quarter.

Gold prices rose briefly above $305 an ounce, after a plane crash in Milan was for a few hours thought to be a terrorist attack.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Apr 25th 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 5.2	+ 4.1 Q4	+ 3.8	+ 3.9	+ 2.5 Q4	+ 4.8 Q4	6.3 Mar	6.5
Austria	– 0.7	– 0.4 Q4	+ 1.2	+ 2.6	– 5.9 Jan	+ 0.7 Jan	3.9 Feb	3.4
Belgium	– 0.8	+ 0.1 Q4	+ 1.3	+ 2.9	– 6.5 Feb	– 5.0 Jan	10.8 Mar*	10.3
Britain	nil	+ 1.6 Q4	+ 1.9	+ 2.9	– 5.1 Feb	+ 5.7 Mar	5.1 Feb†	5.2
Canada	+ 2.0	+ 0.9 Q4	+ 2.3	+ 3.5	– 3.5 Jan	+ 5.7 Jan	7.7 Mar*	7.0
Denmark	+ 0.7	+ 0.7 Q4	+ 1.5	+ 2.4	– 1.6 Feb	+ 2.0 Feb	5.0 Mar	5.4
France	– 0.6	+ 0.9 Q4	+ 1.5	+ 2.9	– 0.6 Feb	– 0.4 Feb	9.0 Feb	8.7
Germany	– 1.0	– 0.1 Q4	+ 0.9	+ 2.5	– 4.8 Feb	– 1.1 Feb	9.6 Mar**	9.3
Italy	– 0.8	+ 0.7 Q4	+ 1.3	+ 2.9	– 3.1 Feb	– 0.4 Feb	9.1 Jan	9.8
Japan	– 4.8	– 1.9 Q4	– 1.0	+ 1.1	–11.5 Feb	– 4.6 Feb	5.3 Feb	4.7
Netherlands	nil	+ 0.4 Q4	+ 1.4	+ 2.7	– 4.0 Feb	– 0.7 Nov	2.2 Mar§	2.2
Spain	+ 0.7	+ 2.3 Q4	+ 2.0	+ 3.2	– 0.2 Feb	na	12.9 Feb	13.2
Sweden	+ 1.4	+ 1.1 Q4	+ 1.7	+ 3.0	– 1.7 Feb	+ 2.4 Feb	3.8 Mar*	3.9
Switzerland	+ 0.1	+ 0.4 Q4	+ 1.0	+ 2.2	– 1.0 Q4	+ 3.8 Feb	2.6 Mar*	1.8
United States	+ 1.7	+ 0.5 Q4	+ 2.5	+ 3.5	– 2.9 Mar	+ 5.9 Feb	5.7 Mar	4.3
Euro area	– 0.2	+ 0.6 Q4	+ 1.3	+ 2.8	– 3.2 Jan	+ 0.7 Jan	8.4 Feb	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 1.8	– 0.9 Q4	na	na	– 7.5 Feb	+ 1.3 Jan	9.5 Mar*	9.6
Greece	na	+ 3.7 Q4	na	na	– 0.8 Jan	+ 6.8 Dec	na	na
Iceland	na	+ 3.1 2001	na	na	+ 2.5 2000	na	2.7 Mar*	1.5
Ireland	na	+ 3.2 Q3	na	na	– 1.6 Feb	– 0.6 Jan	4.3 Mar	3.6
Luxembourg	na	+ 5.1 2001	na	na	– 3.3 Jan	+ 5.4 Dec	2.9 Feb	2.7
New Zealand	+ 2.6	+ 2.9 Q4	na	na	+ 3.5 Q4	+ 7.4 Q4	5.4 Q4	5.6
Norway	+ 1.0	+ 1.8 Q4	na	na	+ 6.2 Feb	+ 2.9 Mar	3.3 Q4	3.1
Portugal	– 1.0	+ 1.3 Q3	na	na	+ 0.5 Feb	+ 1.1 Feb	4.1 Q4*	3.8

*Not seasonally adjusted. †Dec-Feb; claimant count rate 3.1% in Mar. §Dec-Feb. **EU harmonised rate 8.1% in Mar.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Apr 25th 2002
From The Economist print edition

% change at annual rate

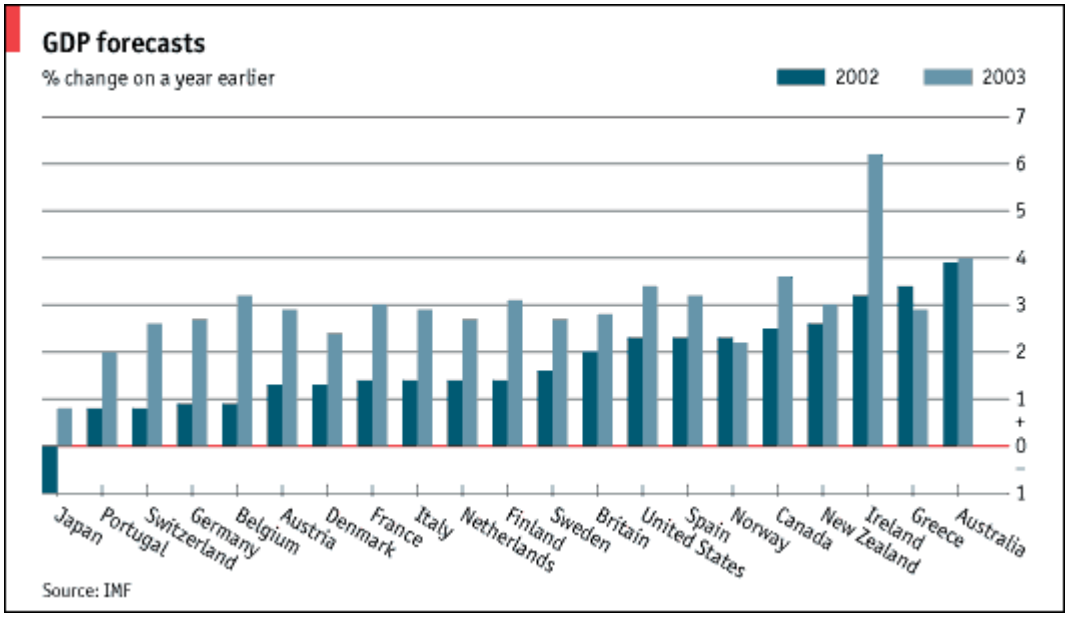
	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2002	2003	latest	year ago	latest	year ago
Australia	+ 2.9 Q1	+ 6.0	+ 2.5	+ 2.4	+ 0.5 Q1	+ 5.2	+ 4.9 Q4	+ 5.4
Austria	+ 1.9 Mar	+ 2.7	+ 1.6	+ 1.7	– 0.3 Mar	+ 2.7	+ 2.4 Mar	+ 2.6
Belgium	+ 2.7 Mar	+ 2.1	+ 1.8	+ 1.7	+ 0.4 Mar	+ 4.5	+ 3.1 Q4	+ 1.6
Britain	+ 1.3 Mar	+ 2.3	+ 2.1	+ 2.5	– 0.3 Mar	+ 1.0	+ 1.9 Feb	+ 5.4
Canada	+ 1.8 Mar	+ 2.5	+ 1.3	+ 2.1	– 1.4 Feb	+ 2.6	+ 3.3 Jan	+ 0.9
Denmark	+ 2.6 Mar	+ 2.3	+ 1.9	+ 2.0	+ 0.8 Mar	+ 3.0	+ 4.1 Q4	+ 3.8
France	+ 2.1 Mar	+ 1.3	+ 1.4	+ 1.5	– 1.3 Feb	+ 3.5	+ 4.1 Q4	+ 5.0
Germany	+ 1.6 Apr	+ 2.9	+ 1.4	+ 1.4	nil Mar	+ 3.3	+ 2.3 Jan	+ 2.4
Italy	+ 2.5 Mar	+ 2.8	+ 1.9	+ 1.9	– 1.4 Feb	+ 5.0	+ 2.8 Feb	+ 2.0
Japan	– 1.6 Feb	– 0.3	– 0.8	– 0.5	– 1.0 Mar	+ 1.0	– 0.3 Feb	+ 0.9
Netherlands	+ 3.6 Mar	+ 4.6	+ 2.9	+ 2.3	– 2.6 Feb	+ 6.6	+ 3.6 Feb	+ 4.4
Spain	+ 3.2 Mar	+ 3.9	+ 2.3	+ 2.4	nil Mar	+ 3.6	+ 3.7 Q4	na
Sweden	+ 2.9 Mar	+ 1.9	+ 2.2	+ 2.0	– 0.4 Mar	+ 2.5	+ 3.2 Dec	+ 2.7
Switzerland	+ 0.5 Mar	+ 0.9	+ 0.6	+ 1.1	– 1.3 Mar	+ 0.5	+ 1.3 2000	+ 0.3
United States	+ 1.5 Mar	+ 2.9	+ 1.4	+ 2.2	– 1.4 Mar	+ 3.0	+ 3.5 Mar	+ 4.3
Euro area	+ 2.5 Mar	+ 2.6	+ 1.7	+ 1.7	– 1.1 Feb	+ 4.6	+ 3.0 Q4	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 1.8 Mar	+ 2.8	na	na	– 0.8 Mar	+ 2.1	+ 4.3 Q4	+ 5.0
Greece	+ 4.0 Mar	+ 3.0	na	na	+ 4.3 Jan	+ 5.2	na	na
Iceland	+ 7.5 Apr	+ 4.5	na	na	+ 8.8 Apr	+ 4.2	+ 8.7 Mar	+ 9.2
Ireland	+ 4.8 Mar	+ 5.4	na	na	+ 2.3 Jan	+ 3.8	+ 8.1 Q4	+ 6.4
Luxembourg	+ 2.1 Mar	+ 2.9	na	na	– 2.5 Feb	+ 4.5	+ 2.4 Jan	+ 7.6
New Zealand	+ 2.6 Q1	+ 3.1	na	na	+ 1.8 Q4	+10.7	+ 2.2 Q4	+ 1.6
Norway	+ 1.0 Mar	+ 3.7	na	na	– 4.5 Mar	– 0.1	+ 4.5 Q4	+ 4.3
Portugal	+ 3.2 Mar	+ 5.1	na	na	– 4.9 Feb	+ 6.0	+ 2.4 Apr	na

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

GDP forecasts

Apr 25th 2002
From The Economist print edition



The International Monetary Fund expects GDP in rich countries as a whole to grow faster this year than in 2001. That is largely because America's growth rate is tipped to rise from 1.2% to 2.3%. However, in more than half the countries shown in the chart, growth will be slower in 2002 than last year. This group includes Japan, Britain, France and Italy. Australia's is expected to be the fastest-growing rich economy in 2002.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Apr 25th 2002
From The Economist print edition

Money and interest rates

	Money supply* % change on year ago			Interest rates % p.a. (Apr 24th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+22.7	+13.6	Feb	4.62	4.70	5.24	6.33	5.79	7.04
Britain	+ 7.2	+ 5.4	Mar	4.13	5.31	4.74	5.23	5.02	6.16
Canada	+11.7	+ 5.3	Mar	2.40	4.43	4.19	5.66	5.67	7.08
Denmark	+ 5.9	+ 6.5	Feb	3.70	5.16	4.40	5.31	5.16	7.00
Japan	+24.4	+ 3.8	Mar	0.03	0.03	0.02	1.43	1.32	1.53
Sweden	+ 8.8	+ 6.2	Dec	4.25	3.96	5.03	5.52	5.01	5.69
Switzerland	+ 6.6	+ 3.1	Mar	1.57	3.15	2.42	3.42	3.41	4.31
United States	+ 7.0	+10.1	Mar	1.76	4.20	3.22	5.10	5.26	6.91
Euro area†	+ 6.1	+ 7.4	Feb	3.39	4.78	4.13	5.08	4.89	5.76

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.62%, Japan No.237 1.44%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Apr 25th 2002
From The Economist print edition

The Economist commodity price index

1995=100

	Apr 16th	Apr 23rd*	% change on one month	% change on one year
Dollar index				
All items	69.0	69.8	– 0.4	+ 0.2
Food	69.4	70.0	– 0.9	+ 4.8
Industrials				
All	68.4	69.5	+ 0.3	– 5.6
Nfa†	68.3	68.6	– 1.2	– 4.9
Metals	68.4	70.3	+ 1.5	– 6.1
Sterling index				
All items	75.6	76.0	– 1.9	– 0.7
Euro index				
All items	102.8	103.2	– 1.9	+ 0.7
Yen index				
All items	96.2	96.4	– 2.6	+ 6.4
Gold				
$ per oz	298.40	302.80	+ 2.0	+14.9
West Texas Intermediate				
$ per barrel	25.17	26.18	+ 1.7	– 2.6

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Apr 25th 2002
From The Economist print edition

Stockmarkets

Market indices

	Apr 24th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,324.1	3,440.0	3,307.7	– 0.8	– 3.4	– 1.1	+ 4.7
Austria (ATX)	1,317.3	1,333.1	1,114.4	– 1.1	–24.2	+15.5	+15.7
Belgium (Bel 20)	2,893.1	2,899.8	2,622.4	+ 1.6	–21.4	+ 4.0	+ 4.2
Britain (FTSE 100)	5,218.2	5,323.8	5,024.1	– 0.9	–24.7	+ 0.0	– 0.4
Canada (Toronto Composite)	7,713.4	7,958.1	7,418.1	– 2.0	–32.3	+ 0.3	+ 2.1
Denmark (KBX)	215.5	233.4	215.5	– 2.9	–28.6	– 4.1	– 3.9
France (SBF 250)	2,993.8	3,081.9	2,782.5	– 1.4	–31.8	+ 0.4	+ 0.6
(CAC 40)	4,528.0	4,688.0	4,239.0	– 1.5	–34.6	– 2.1	– 1.9
Germany (Xetra DAX)	5,160.1	5,462.6	4,745.6	– 3.0	–36.0	+ 0.0	+ 0.2
Italy (BCI)	1,496.0	1,513.0	1,344.9	– 1.1	–31.4	+ 4.4	+ 4.6
Japan (Nikkei 225)	11,672.9	11,919.3	9,420.9	+ 1.1	–70.0	+10.7	+11.9
(Topix)	1,098.7	1,125.4	922.5	+ 0.8	–61.9	+ 6.5	+ 7.6
Netherlands (AEX)	520.6	531.2	478.3	– 1.6	–25.8	+ 2.7	+ 2.9
Spain (Madrid SE)	841.6	848.1	773.2	– 0.3	–26.6	+ 2.1	+ 2.3
Sweden (Affarsvarlden Gen)	202.6	236.8	202.6	– 9.5	–49.4	–12.4	–10.9
Switzerland (Swiss Market)	6,679.8	6,694.1	6,105.2	– 0.2	–20.6	+ 4.1	+ 5.2
United States (DJIA)	10,030.4	10,635.3	9,618.2	– 1.9	–14.4	+ 0.1	+ 0.1
(S&P 500)	1,093.0	1,172.5	1,080.2	– 2.9	–28.4	– 4.8	– 4.8
(Nasdaq Comp)	1,713.3	2,059.4	1,713.3	– 5.4	–66.1	–12.2	–12.2
Europe (FTSE Eurotop 300)*	1,241.6	1,279.7	1,185.5	– 2.1	–27.2	– 1.5	– 1.4
Euro area (FTSE Ebloc 100)*	1,077.7	1,125.1	1,013.0	– 2.9	–30.5	– 3.1	– 2.9
World (MSCI)†	978.1	1,024.4	937.0	– 2.1	–32.5	na	– 2.5
World bond market (Salomon)‡	443.6	443.6	430.3	+ 0.7	– 3.5	na	+ 0.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

Apr 25th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† Apr 24th	year ago	Currency units per $ Apr 24th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	+ 1.3	Feb	− 9.2	Q4	− 3.5	− 3.7	76.6	70.6	1.85	1.98	2.67	1.65	1.42	0.1
Austria	− 3.3	Jan	− 3.6	Feb	− 2.2	− 2.0	100.1	100.3	1.12§	1.11	1.62	–	0.86	nil
Belgium	+ 11.5	Jan	+ 13.0	Dec	+ 4.8	+ 4.8	98.9	99.0	1.12§	1.11	1.62	–	0.86	nil
Britain	− 47.2	Feb	− 25.1	Q4	− 1.9	− 1.9	107.0	105.7	0.69	0.69	–	0.62	0.53	1.1
Canada	+ 37.6	Feb	+ 18.9	Q4	+ 1.9	+ 2.1	76.9	77.9	1.57	1.54	2.27	1.40	1.21	2.8
Denmark	+ 7.2	Feb	+ 4.1	Feb	+ 2.5	+ 2.3	102.0	101.9	8.33	8.32	12.1	7.43	6.42	2.0
France	+ 4.5	Feb	+ 24.4	Feb	+ 1.8	+ 1.7	101.5	101.7	1.12§	1.11	1.62	–	0.86	-1.5
Germany	+ 90.3	Feb	+ 15.8	Feb	+ 0.3	+ 0.4	98.6	98.7	1.12§	1.11	1.62	–	0.86	-2.5
Italy	+ 8.5	Feb	+ 1.7	Jan	nil	− 0.1	72.5	72.6	1.12§	1.11	1.62	–	0.86	-1.4
Japan	+ 70.1	Feb	+ 90.0	Feb	+ 2.5	+ 2.5	129.8	138.0	130	122	188	116	–	-6.4
Netherlands	+ 22.4	Feb	+ 11.8	Q4	+ 3.7	+ 4.0	97.8	97.9	1.12§	1.11	1.62	–	0.86	1.1
Spain	− 38.3	Jan	− 15.1	Jan	− 2.1	− 1.8	74.2	74.2	1.12§	1.11	1.62	–	0.86	nil
Sweden	+ 13.5	Feb	+ 7.4	Feb	+ 2.3	+ 2.6	75.8	76.5	10.3	10.2	14.9	9.19	7.94	3.8
Switzerland	+ 1.8	Mar	+ 24.6	Q4	+ 9.4	+ 9.5	112.7	107.7	1.64	1.71	2.38	1.47	1.27	na
United States	−423.2	Feb	−417.4	Q4	− 4.2	− 4.5	121.1	118.5	–	–	1.45	0.89	0.77	0.6
Euro area	+ 50.3	Feb	− 6.5	Jan	+ 0.3	+ 0.4	78.6	79.0	1.12	1.15	1.62	–	0.86	-1.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.4	Feb	+ 7.5	Feb	na	na	78.1	78.2	1.13§	1.11	1.64	–	0.87	3.7
Greece	− 19.1	Dec**	− 7.2	Dec	na	na	57.5	57.5	1.13§	1.11	1.64	–	0.87	0.2
Iceland	+ 9.3	Feb	− 0.4	Q4	na	na	na	na	99.3	94.1	144	88.6	76.6	-0.2
Ireland	+ 31.9	Jan	− 1.2	Q3	na	na	87.2	87.5	1.13§	1.11	1.64	–	0.87	3.2
Luxembourg	− 2.8	Dec	+ 0.4	Q3	na	na	98.9	99.0	1.13§	1.11	1.64	–	0.87	5.3
New Zealand	+ 0.2	Feb	− 1.6	Q4	na	na	85.8	78.2	2.28	2.44	3.30	2.03	1.76	1.3
Norway	+ 24.6	Mar	+ 22.7	Jan	na	na	100.5	93.8	8.69	9.10	12.6	7.75	6.70	14.3
Portugal	− 13.7	Jan	− 10.2	Jan	na	na	89.2	89.4	1.13§	1.11	1.64	–	0.87	-1.7

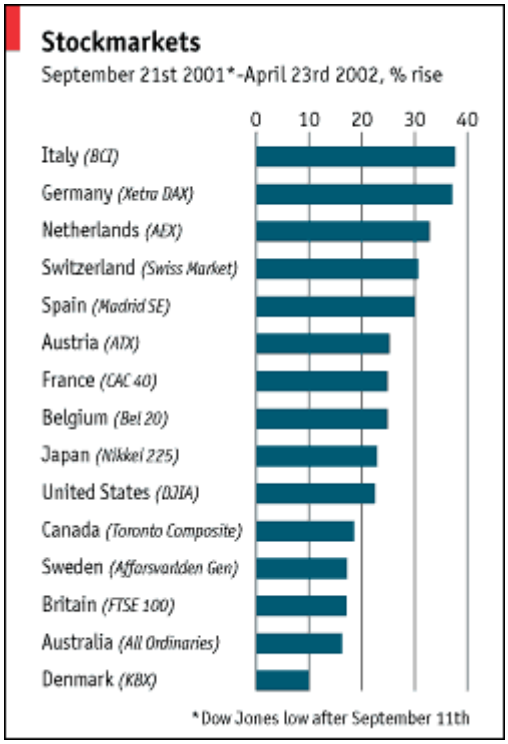
*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate. §Now using euro only. **Corrected.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Apr 25th 2002



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Apr 25th 2002
From The Economist print edition

Argentina's woes worsened. The country's economy minister, Jorge Remes Lenicov, resigned after lawmakers refused to debate a bill to convert Argentina's bank deposits into government bonds. The highly unpopular conversion is a desperate effort to prevent the bank collapsing entirely. Industrial output in Argentina suffered a sharp fall, dropping by 16.7% in the year to March.

Consumer-price inflation in **Poland** fell to 3.3% in the year to March, a record low.

Hong Kong experienced its 41st straight month of deflation in March. Consumer prices fell by 2.2% over the year, compared with a fall of 2.3% in the year to February.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist poll of forecasters

Apr 25th 2002
From The Economist print edition

Every three months, *The Economist* polls a group of economic forecasters and calculates the average of their predictions for economic growth and current-account balances in 25 emerging economies. Our panellists are optimistic about growth in Asia this year. Growth forecasts have been revised up for all the Asian countries in our table except India. On much of Latin America, however, the panel has become decidedly gloomier. It now expects Argentina's economy to shrink by 10.6% in 2002, over twice the 4.7% predicted in January.

April

	Real GDP % change		Current account % of GDP	
	2002	2003	2002	2003
China	7.2	7.5	1.1	0.7
Hong Kong	2.1	4.2	6.0	5.9
India	5.3	5.7	–0.0	0.1
Indonesia	3.9	4.6	1.9	1.9
Malaysia	4.0	5.5	6.3	5.8
Philippines	3.6	4.1	5.3	5.1
Singapore	3.9	5.9	21.6	19.9
South Korea	5.7	5.7	1.3	0.6
Taiwan	3.3	4.2	5.4	4.6
Thailand	3.3	4.1	4.5	4.0
Argentina	–10.6	1.5	3.4	4.2
Brazil	2.3	3.6	–4.0	–4.0
Chile	3.0	4.8	–2.1	–2.0
Colombia	2.2	3.2	–2.8	–3.2
Mexico	1.6	4.3	–3.2	–2.9
Peru	3.5	4.5	–2.1	–2.8
Venezuela	–1.7	1.5	2.6	2.5
Egypt	2.1	3.6	–2.2	–1.4
Israel	0.9	3.4	–2.2	–1.5
South Africa	2.1	3.3	–0.0	–0.4
Turkey	2.6	4.7	–0.5	–1.4
Czech Republic	3.3	4.1	–4.5	–4.3
Hungary	3.6	4.3	–2.9	–2.9
Poland	1.7	3.4	–4.1	–3.6
Russia	3.7	4.0	6.1	4.6

Sources: ABN Amro; Deutsche Bank; Economist Intelligence Unit; Goldman Sachs; HSBC; ING Financial Markets; J.P.Morgan Chase; Merrill Lynch; Salomon Smith Barney; UBS Warburg.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Apr 25th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.6	Q1	+10.9	Mar	– 0.6	Mar	+25.5	Mar	+21.2	2001§	220.8	Jan
Hong Kong	– 1.6	Q4	– 9.3	Q4	– 2.2	Mar	– 9.9	Feb	+12.0	Q4	110.2	Mar
India	+ 6.3	Q4	+ 2.3	Feb	+ 5.2	Feb	– 6.0	Feb	– 0.1	Q4	51.1	Mar
Indonesia	+ 4.1	Q4	– 2.2	Q3	+14.1	Mar	+25.9	Feb	+ 8.4	Q3	27.1	Feb
Malaysia	– 0.5	Q4	+ 2.9	Feb	+ 2.1	Mar	+13.9	Feb	+ 6.9	Q4	30.3	Feb
Philippines	+ 3.8	Q4	– 0.5	Jan‡	+ 3.6	Mar	+ 2.6	Feb	+ 4.5	Dec	13.9	Feb
Singapore	– 2.6	Q1	–11.3	Feb	– 0.9	Mar	+ 5.3	Mar	+17.9	Q4	75.9	Mar
South Korea	+ 3.7	Q4	– 2.6	Feb	+ 2.3	Mar	+ 6.6	Mar	+ 8.2	Feb	106.0	Mar
Taiwan	– 2.7	Q4	+ 0.4	Mar	nil	Mar	+17.5	Mar	+19.0	Q4	125.0	Feb
Thailand	+ 2.1	Q4	+ 2.3	Feb	+ 0.6	Mar	+ 2.9	Feb	+ 6.4	Feb	33.2	Feb
Argentina	–10.7	Q4	–16.7	Mar	+ 7.9	Mar	+ 8.3	Feb	– 4.4	Q4	13.9	Feb
Brazil	– 0.7	Q4	– 1.4	Feb	+ 9.7	Mar	+ 4.4	Mar	–19.8	Mar	35.9	Feb
Chile	+ 1.7	Q4	+ 0.9	Feb	+ 2.6	Mar	+ 1.5	Mar	– 0.9	Q4	14.0	Feb
Colombia	+ 1.7	Q4	– 1.4	Dec	+ 5.9	Mar	+ 0.2	Jan	– 1.7	Q4	10.4	Feb
Mexico	– 1.6	Q4	– 1.8	Feb	+ 4.7	Mar	– 9.4	Mar	–17.1	Q4	47.1	Feb
Peru	+ 3.3	Feb	+ 1.5	Jan	– 1.1	Mar	– 0.1	Feb	– 1.1	Q4	8.3	Mar
Venezuela	+ 2.8	Q3	+ 7.9	Oct	+17.6	Mar	+ 9.8	Q4	+ 4.4	Q4	7.6	Jan
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.4	Jan	– 8.6	Dec	– 0.1	Q4	12.9	Dec
Israel	– 3.4	Q4	– 9.6	Jan	+ 4.3	Mar	– 6.5	Mar	– 1.7	Q4	24.2	Mar
South Africa	+ 1.8	Q4	+ 5.5	Feb	+ 6.6	Mar	+ 3.7	Feb	– 0.2	Q4	6.0	Feb
Turkey	–10.4	Q4	– 4.5	Feb	+65.1	Mar	– 6.7	Jan	+ 3.3	Dec	20.5	Feb
Czech Republic	+ 3.2	Q4	+ 5.8	Feb	+ 3.7	Mar	– 2.7	Mar	– 2.7	Q4	14.6	Mar
Hungary	+ 3.3	Q4	nil	Feb	+ 5.9	Mar	– 2.3	Feb	– 1.4	Feb	9.7	Mar
Poland	+ 0.3	Q4	– 3.2	Mar	+ 3.3	Mar	–11.3	Feb	– 7.3	Feb	25.5	Feb
Russia	+ 4.3	Q4	+ 3.7	Mar	+17.0	Mar	+45.8	Feb	+35.1	Q4	33.2	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 6.9	Dec	+ 4.6	Feb	– 1.0	Mar	+ 0.3	2001†	3.6	Jan
Saudi Arabia	+ 1.7	2001§	na		nil	Dec	+37.5	2001§	+ 8.3	2001	18.8	Feb

*Excluding gold, except Singapore; IMF definition. ‡New series. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Apr 25th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 24th		Dec 31st 2001	
	Apr 24th	year ago	Apr 24th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.0	na	1,683.1	– 2.0	– 1.7	– 1.7
Hong Kong	7.80	7.80	11.3	1.99	11,396.6	+ 2.8	– 0.0	– 0.0
India	49.0	46.8	70.9	5.80	3,411.9	– 0.3	+ 4.6	+ 3.0
Indonesia	9,325	11,985	13,510	17.20	544.3	+ 0.4	+ 38.8	+ 54.8
Malaysia	3.80	3.80	5.51	3.25	799.5	+ 0.9	+ 14.9	+ 14.9
Philippines	50.9	50.6	73.7	6.50	1,354.8	– 3.5	+ 16.0	+ 17.6
Singapore	1.82	1.82	2.63	0.94	1,734.7	– 2.1	+ 6.8	+ 8.6
South Korea	1,302	1,308	1,886	4.74	915.7	– 1.6	+ 32.0	+ 33.2
Taiwan	34.8	32.9	50.4	2.55	6,455.4	+ 1.0	+ 16.3	+ 17.1
Thailand	43.3	45.6	62.7	2.25	380.8	– 2.6	+ 25.3	+ 28.0
Argentina	3.13‡	1.00	4.53	na	419.7§	+13.8	+ 42.1	– 54.6
Brazil	2.36	2.30	3.41	18.39	13,380.8	– 2.6	– 1.4	– 3.4
Chile	654	606	947	4.32	5,242.8**	– 0.2	– 2.9	– 1.8
Colombia	2,265	2,347	3,282	10.27	1,140.5	+ 0.1	+ 6.5	+ 7.1
Mexico	9.28	9.32	13.4	5.28	7,504.7	– 0.9	+ 17.8	+ 16.3
Peru	3.43	3.59	4.98	2.40	1,261.8	– 1.1	+ 7.4	+ 7.7
Venezuela	850	711	1,231	26.40	6,799.8	– 2.2	+ 3.5	– 7.7
Egypt	4.63	3.89	6.71	7.20	5,240.5	– 0.3	– 0.6	– 1.8
Israel	4.86	4.16	7.04	2.73	373.0	– 0.7	– 16.5	– 24.2
South Africa	11.0	8.11	15.9	11.40	11,253.7	– 1.3	+ 7.8	+ 18.1
Turkey	1,341,000	1,215,000	1,942,841	46.00	11,775.1	– 4.0	– 14.6	– 7.3
Czech Republic	33.9	38.7	49.2	4.27	445.3	– 1.4	+ 12.8	+ 18.2
Hungary	270	298	391	8.45	8,575.4	– 2.1	+ 20.3	+ 22.3
Poland	4.04	4.02	5.85	10.14	14,918.9	– 1.4	+ 7.2	+ 4.8
Russia	31.2	28.9	45.1	23.00	385.0††	+ 2.4	+ 51.3	+ 48.1
EMF (MSCI)*	1.00	1.00	1.45	na	363.6	– 0.1	na	+ 14.5
EMBI+†	1.00	1.00	1.45	na	217.3	– 0.3	na	+ 8.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡Fixed official rate 1.40. §Apr 19th. **Apr 23rd. ††In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; Russian Economic Trends.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.